

**UNEMPLOYMENT COMPENSATION—  
BURDEN ON JOBLESS**

---

---

**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON  
SOCIAL SECURITY AND FAMILY POLICY  
OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
ONE HUNDRED SECOND CONGRESS  
FIRST SESSION

NEW YORK, NY  
JUNE 24, 1991



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1991

49-613 ←

---

For sale by the U.S. Government Printing Office  
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402  
ISBN 0-16-037098-1

S361-11

## COMMITTEE ON FINANCE

LLOYD BENTSEN, Texas, *Chairman*

DANIEL PATRICK MOYNIHAN, New York	BOB PACKWOOD, Oregon
MAX BAUCUS, Montana	BOB DOLE, Kansas
DAVID L. BOREN, Oklahoma	WILLIAM V. ROTH, JR., Delaware
BILL BRADLEY, New Jersey	JOHN C. DANFORTH, Missouri
GEORGE J. MITCHELL, Maine	JOHN H. CHAFEE, Rhode Island
DAVID PRYOR, Arkansas	DAVE DURENBERGER, Minnesota
DONALD W. RIEGLE, JR., Michigan	STEVE SYMMS, Idaho
JOHN D. ROCKEFELLER IV, West Virginia	CHARLES E. GRASSLEY, Iowa
TOM DASCHLE, South Dakota	
JOHN BREAU, Louisiana	

VANDA B. McMURTRY, *Staff Director and Chief Counsel*  
EDMUND J. MIHALSKI, *Minority Chief of Staff*

---

## SUBCOMMITTEE ON SOCIAL SECURITY AND FAMILY POLICY

DANIEL PATRICK MOYNIHAN, New York, <i>Chairman</i>	
JOHN BREAU, Louisiana	BOB DOLE, Kansas
	DAVE DURENBERGER, Minnesota

# CONTENTS

## OPENING STATEMENT

	Page
Moynihan, Hon. Daniel Patrick, a U.S. Senator from New York, chairman of the subcommittee .....	1

## COMMITTEE PRESS RELEASE

Subcommittee Plans Field Hearing on Unemployment Compensation, Moynihan Concerned by Burden on Jobless .....	1
--	---

## PUBLIC WITNESSES

Hartnett, Hon. Thomas P., commissioner, New York State Department of Labor, accompanied by Thomas Rodick, director of research and statistics .....	2
Cleary, Edward J., president, New York State AFL-CIO, accompanied by Joseph Jamison, research director .....	9
Brown, Clayola, manager and secretary treasurer, Amalgamated Service and Allied Industries Joint Board, and member, executive board, Central Labor Council, accompanied by Mark Schwartz .....	14
Layton, Lillian, chairperson, New York Chamber of Commerce and Industry Committee on Unemployment Insurance .....	19
Du Val, Robert, vice chairperson, New York State Business Council Committee on Unemployment Insurance, accompanied by Michael Bottleman .....	23
Levine, Philip B., lecturer at Princeton University and Wellesley College .....	29
Valentin, Nelson, member, Steering Committee of New York Unemployed Committee, former salesman, presently unemployed .....	37
Brooks, Keith, coordinator of the New York Unemployed Committee .....	38
Harvey, Steven A., executive director, Long Island Progressive Coalition .....	41
Proper, George, member, Long Island Progressive Coalition, presently unemployed .....	43

## ALPHABETICAL LISTING AND APPENDIX MATERIAL SUBMITTED

Brooks, Keith:	
Testimony .....	38
Prepared statement .....	47
Brown, Clayola:	
Testimony .....	14
Prepared statement .....	48
Cleary, Edward J.:	
Testimony .....	9
Prepared statement .....	49
Cunningham, William J.:	
Prepared statement .....	53
Du Val, Robert:	
Testimony .....	23
Prepared statement .....	56
Hartnett, Hon. Thomas F.:	
Testimony .....	2
Prepared statement with attachments .....	59
Harvey, Steven A.:	
Testimony .....	41
Prepared statement .....	68

IV

	Page
Layton, Lillian:	
Testimony .....	19
Prepared statement with attachment .....	70
Levine, Philip B.:	
Testimony .....	29
Prepared statement .....	73
Moynihan, Hon. Daniel Patrick:	
Opening statement .....	1
Prepared statement .....	80
Proper, George:	
Testimony .....	43
Prepared statement .....	80
Valentin, Nelson:	
Testimony .....	37
Prepared statement .....	81

# UNEMPLOYMENT COMPENSATION— BURDEN ON JOBLESS

MONDAY, JUNE 24, 1991

U.S. SENATE,  
SUBCOMMITTEE ON SOCIAL SECURITY  
AND FAMILY POLICY,  
COMMITTEE ON FINANCE,  
*New York, NY.*

The committee was convened, pursuant to notice, at 10:15 a.m. in the Ceremonial Court Room, U.S. Court of International Trade, One Federal Plaza, Manhattan, NY, Hon. Daniel Patrick Moynihan (chairman of the subcommittee) presiding.

Also present: Senator Offner.

[The press release announcing the hearing follows:]

[Press Release No. H-25, June 20, 1991]

## SUBCOMMITTEE PLANS FIELD HEARING ON UNEMPLOYMENT COMPENSATION, MOYNIHAN CONCERNED BY BURDEN ON JOBLESS

WASHINGTON, DC—Senator Daniel Patrick Moynihan, Chairman of the Finance Subcommittee on Social Security and Family Policy, on Thursday announced a hearing in New York City on unemployment compensation.

The hearing will be at 10 a.m., Monday, June 24, 1991, at the Court of International Trade, 1 Federal Plaza, Manhattan.

Moynihan said he wants to receive testimony on problems with unemployment compensation and determine what steps Congress should take to address the situation.

"At a time when less than half of the unemployed are receiving unemployment benefits, and laid-off workers in many places must wait for weeks before receiving their first benefit checks because local offices are understaffed, we need to determine what government can do to ease the burden on this recession's victims. That is the purpose of this hearing," Moynihan said.

## OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK, CHAIRMAN OF THE SUBCOMMITTEE

Senator MOYNIHAN. A very good morning to our guests and witnesses. I apologize for being late; there is nothing to be done about the FDR drive at this hour of the season. All will be well in time.

This is a regular scheduled meeting of the Subcommittee on Social Security and Family Policy of the Committee on Finance. We are here to discuss the issue of unemployment insurance.

And we find ourselves with a very different set of arrangements than we previously had. The unemployment insurance system, which was of course put in place by the Social Security Act of 1935, has previously worked in a fairly regular and systematic way. Monies came in; the trust funds were always ample, and we could

usually expect that a minimum two-thirds of the persons unemployed in a business cycle would be covered by unemployment insurance, if not more than that.

Suddenly we looked up, and we found that the rule changes made in 1981 have changed all that. And fewer than half of the persons unemployed get unemployment compensation. That is something which is not the only thing, but it is an example of things going on which we never expected would happen and certainly don't welcome.

We have legislation in the Finance Committee—Mr. Riegle and I and others have in—to try and see if we can't do something about this; and we are trying to make a record of the needs.

We have held hearings. I chaired the hearing on April 25th in the full committee. A group of New Yorkers had come down and wanted to be in the hearing; we had no room for them then. There was no room in the hearing room; and I said we would come back to New York and hold a hearing, and here we are.

Senator Paul Offner is with me, who is the authority on the Unemployment Insurance Reform Act of 1991.

I will place my statement in the record at this point; and without a moment's further delay, Commissioner Hartnett, if would you be good enough to come forward, sir, and bring anybody you would like? We want to hear you.

We have your statement, which will be put in the record as if read; and you might want to tell us what you think about what is happening and what ought to be done.

**STATEMENT OF HON. THOMAS P. HARTNETT, COMMISSIONER,  
NEW YORK STATE DEPARTMENT OF LABOR, ACCOMPANIED BY  
THOMAS RODICK, DIRECTOR OF RESEARCH AND STATISTICS**

Commissioner HARTNETT. Thank you very much, Mr. Chairman. Good morning. My apologies for the FDR problem.

SENATOR MOYNIHAN. Now, there is a man who assumes responsibility. [Laughter.]

Commissioner HARTNETT. I want to thank you for the opportunity to testify here. I have submitted additional written testimony, and I will make my remarks brief.

Senator MOYNIHAN. And very good testimony. And could you introduce your associates?

Commissioner HARTNETT. I certainly will. The gentleman to my left is Tom Rodick, who is the director of research and statistics for the New York State Labor Department.

Senator MOYNIHAN. Good morning, sir. We welcome you.

Commissioner HARTNETT. Mr. Chairman, I am here today on behalf of every resident of New York; but in particular, I am here on behalf of the 90,000 New Yorkers who are presently suffering undue hardships at the hands of the Federal Government.

On March 16 of this year, these New Yorkers should have become eligible for extended unemployment insurance benefits.

These New Yorkers, who lost their jobs through no fault of their own, should have landed in a safety net that would have assured them the continued availability of benefits as they struggle to locate new employment.

But unfortunately, in 1982, the Reagan administration cut some gaping holes in that safety net; and to date, some 90,000 New Yorkers—and an estimated 1.5 million Americans—are falling through the holes left behind by the previous administration.

You see, prior to 1982, the Federal Government provided extended benefits to unemployed individuals based on a realistic formula meant to help the unemployed.

What the Reagan administration did was to change the formula and place unreasonable restrictions on the availability of benefits.

If the old formula was still in place, extended benefits would have become available to New Yorkers on March 16, 1991.

Now, under the present formula, it is doubtful that these benefits will become available to New Yorkers at all.

I am here today, Mr. Chairman, to ask that you help repair the holes in this vital safety net.

The recession this country is now experiencing is undeniably severe. Everyone is feeling the effects, from Government to business to working men and women.

Government and business say that they cannot foot the bill for the extension of unemployment insurance benefits; well, frankly, we are not asking you to.

There is presently over \$8 billion in the trust fund specifically dedicated to the purpose of paying extended benefits in times of high unemployment.

The money, which was raised through employer taxes, can be used for no other purpose.

Indeed, the Office of Management and Budget has released figures that indicate that during 1991, the trust fund will actually take in more employer taxes than it will pay out in extended benefits in those few States where these benefits are presently available.

Senator MOYNIHAN. The Federal Trust Fund is assigned to the extended benefits program.

Commissioner HARTNETT. That is correct.

Senator MOYNIHAN. And so, what we have here is a tax earmarked for a trust fund for a program which effectively has been closed down.

Commissioner HARTNETT. That is correct.

Senator MOYNIHAN. That is about what it is, isn't it? That trust fund—the Finance Committee is responsible for that; and that is new information for me.

I knew that we had \$8 billion, but the OMB has suggested that in this calendar year that trust fund for extended benefits will take in more than it will pay out?

Commissioner HARTNETT. That is correct.

Senator MOYNIHAN. In the midst of the current recession?

Commissioner HARTNETT. There was a projection that the balance in that trust fund, the fund specifically designed for extended benefits, will be about \$9 billion by next year.

It is currently \$8 billion and will be about \$9 billion by next year.

Senator MOYNIHAN. And so, \$8 billion? So, another billion dollars of trust fund goes into the general revenues? That money is used for other things.

The Treasury sells a bond to the trust fund, then has the money. These aren't chests of gold coins. That is news; that is important news.

Commissioner HARTNETT. This, in my opinion, is a breach of a trust; it is a breach of a trust to the employers who paid their taxes into the fund, and it is certainly a breach of the trust to the unemployed, who rightfully expect the money.

Senator MOYNIHAN. Do you have a citation for that, or do you have the OMB statement estimate?

Commissioner HARTNETT. I can provide you with that.

Senator MOYNIHAN. Would you do that? I have to take that back to Washington.

Commissioner HARTNETT. Yes.

Senator MOYNIHAN. I mean, in the middle of recession, they are going to have a \$1 billion surplus and add another \$1 billion to the already \$8 billion in the extended benefits fund.

Commissioner HARTNETT. To reinforce this point in human terms, early this month the Los Angeles Times reported on a record number of families who are receiving public assistance through the Aid to Families with Dependent Children Program.

More than 12.5 million Americans are now receiving public assistance through this program, surpassing the previous peak which occurred during our last recession in 1981.

The Times cited experts who claim that one of the major causes for this increase of Americans on welfare is the failure of the Federal unemployment insurance system to pay extended benefits to the growing number of long-term unemployed.

Mr. Chairman, this is an American tragedy unfolding before our eyes.

People who have worked hard all their lives are suddenly left with no job and are being forced to turn to friends or family or public assistance after their benefits run dry.

At my department, we recently conducted a telephone survey of some of the recent unemployment insurance recipients who had exhausted their benefits.

We asked questions like: Have you found a job yet? And how are you making ends meet?

Let me give you an example of some of the responses that we received:

One gentleman stated: "If I didn't move in with my parents, I would be living under a bridge somewhere." Another said that "the stress caused by not being able to pay my bills made me sick. I have no health insurance to pay those bills."

And finally, a lady who had exhausted her benefits, stated: "My husband lost his job also. I can't believe that we can help Kuwait but not help people here that need help."

Another statistic that reinforces this tragedy as it unfolds, a comparison of the first quarter of 1988 and the first quarter of 1991; it shows that there has been an 81 percent increase in the number of people who are exhausting their unemployment insurance benefits—an 81-percent increase.

That is white collar; that is blue collar; that is all collar.



In addition, the average weeks of duration on benefits, which was about 16.5 weeks per recipient in 1988, is now approaching 20 weeks. It is actually 19.6 weeks in 1991.

That is the highest figure that it has been in 10 years.

And the solution to all this is, in my estimation, simple. The formula that allows the extension of benefits to trigger on in the individual States should be changed back to the more realistic triggers that existed prior to 1982.

Our most recent figures indicate that there are now approximately 637,000 unemployed men and women in New York State; that is total unemployment.

Under the old formula, the availability of extended benefits would have triggered on when the number of unemployed in New York reached approximately 611,000.

Under the present formula, the number of unemployed would have to soar to approximately 940,000 people before a single individual became eligible for extended benefits.

This means that the State unemployment rate would have to climb from the present level of 7.4 percent to approximately 11 percent before extended benefits would kick in under the present formula.

Senator MOYNIHAN. Now, we never had any idea when we began the extended program in the 1970's that we would be talking about double digit unemployment before you reached it.

Commissioner HARTNETT. That is correct.

Senator MOYNIHAN. You know, I think about this thing. It was 30 years ago that I went to Washington with President Kennedy's administration, and I became Assistant Secretary of Labor.

And you know, there were difficulties around and about; but one of the things that was just working beautifully was unemployment insurance.

It was 25 years in place. No, wait—

Unemployment insurance benefits began to be paid when? Do you remember? Do you know offhand? 1938, 1939?

Commissioner HARTNETT. Something like that, in late 1938 or 1939.

Senator MOYNIHAN. 1938 or 1939; it was just about 20 years. And that was one thing that was working fine. That was just working fine.

It had matured early; Social Security was not yet a major program. The number of people actually retiring and getting benefits was not large, a small proportion of the work force and small benefits. That was to take another 20 years before it matured.

But the one thing that was right there working very nicely was unemployment insurance. And you look up 30 years later, and it is not working at all.

You have to have a level of insured unemployment which corresponds to a much higher level of overall employment than we ever had in mind. Isn't that about it.

Commissioner HARTNETT. That is about it.

Senator MOYNIHAN. Has insured employment declined as a proportion of the work force?

Commissioner HARTNETT. Insured employment?

Senator MOYNIHAN. Yes. Persons in work where, if unemployed, they are entitled to benefits.

Commissioner HARTNETT. That is an increasing share of total employment.

Senator MOYNIHAN. That has been an increasing share? All right.

What is the difference in the rate then between the insured unemployment rate and the unemployment rate, the gross rate?

Mr. RODICK. The insured unemployment is a fraction, which includes in the numerator the number of individuals collecting benefits divided by the number of individuals in covered employment.

With the total employment rate, the difference in the numerator is that you have in there in addition to people who are currently qualifying and receiving benefits, those people who are new or re-entrants or who have no recent work experience and therefore cannot qualify for benefits.

Those who are disqualified because of particular reasons for disqualification from the program; you also have in there unemployment for noncovered sources as well and for people who don't make application for unemployment insurance; we call them in our office the "delayed and never filers."

That number generally goes down as the recession deepens.

But the basic difference is in the insured unemployment rate, you are carrying all those people in benefit status divided by the covered employment.

And in the total employment rate, the largest component of those is the new and re-entrants; and the other groups are those who may have worked in covered employment but, for some reason or another, either do not qualify or choose not to apply.

Senator MOYNIHAN. I asked because, as you know, this is a program which, in the manner of the 1930's, leaves States with a great deal of flexibility in what they want to do.

So, if I could get from you more of these breakdowns for New York, we would like to have them.

Mr. RODICK. I think one important difference in the insured unemployment rate and the total unemployment rate is that, in 1978, the Federal Government extended coverage to local governments and to other governments—generally local governments.

Senator MOYNIHAN. Right.

Mr. RODICK. Typically, the unemployment rate among the governments was very, very low—well, less than the total. So, that added a considerable number of people to the denominator of that fraction.

In New York, there is well over 1 million people.

If you look historically at trigger rates or insured unemployment rates, you will find that the rate dropped by nearly a percentage point with the inclusion of government workers in the bottom number.

So, while 4 percent used to be the trigger—or 4.5 percent typically—and was somewhat realistic, adding government and raising to five is like a double whammy on the system.

Senator MOYNIHAN. I have got you. Got you.

Commissioner HARTNETT. Just a couple of other points, though. Extended benefits is not the only issue that we are confronting

here in New York and, indeed, the various Departments of Labor are confronting around the country.

We have worked very hard here in New York to deal compassionately and professionally with unemployment insurance recipients.

Frankly, Mr. Chairman, there have been times during the last 2 years when the Federal Government has been more of an adversary than helpful in our struggle to assist the growing number of unemployed.

I speak of the recent unemployment insurance shortfall that put a stranglehold on the administrative funds.

Senator MOYNIHAN. Of the administrative funds?

Commissioner HARTNETT. Yes.

Senator MOYNIHAN. Not the money for benefits.

Commissioner HARTNETT. That is correct.

Senator MOYNIHAN. How do we divide that up?

Commissioner HARTNETT. There was a separate trust fund.

Senator MOYNIHAN. Right. We have \$1.1 billion.

Commissioner HARTNETT. That is right.

Senator MOYNIHAN. And you have not been getting money from—

Commissioner HARTNETT. That money doesn't flow on a timely basis; in some cases, it doesn't flow at all. But then in other cases, it doesn't flow on a timely basis to the various Departments of Labor.

So, at the very height of the recession, some States are in a position of having the unemployed wait 4, 5, or 6 weeks for their first check because of the fact that they don't have staff to process the checks.

Senator MOYNIHAN. Can you get us some specifics on this because I am going to talk to Ed Cleary now?

This has become a pattern with OMB running the trust funds.

With the disability insurance, which is OSDI for the Social Security Trust Fund, they started disallowing benefits, not processing benefits, and other extraordinary things.

So, disallowances were up, up, up; and they were taken on appeal. The great majority were overturned; and this is done as a budgetary device to keep from spending trust funds.

The trust funds are not meant to be available as general revenue, but they are becoming general revenue. They are "debouching" the whole Social Security System.

Not many people know—and there is no reason that people should know this—but unemployment insurance was established in the Social Security Act of 1935.

It is all one set of trust funds; I mean, it is a family of trust funds, and all that money is being subjected to OMB saying don't spend it. And that keeps the deficit down.

That is not what the trust funds are for.

If you think you have got problems—and you do—the Social Security Trust Funds, OSDI, are growing at almost \$2 billion a week. And the money is not going to benefits; it is being used in effect as general revenue. Sorry.

Commissioner HARTNETT. That is perfectly all right. Let me give you the bottom line; and we have some specific recommendations in my testimony on the areas of administrative funding and the like, and I won't go into all of them here.

But we cannot be left in a position where the administration comes out with a projection for what unemployment will look like that is unrealistically low; our funding is based on that in part.

We are left in a position where people are coming out the doors and out the windows of our local offices in New York, and indeed around the country, where we are receiving about 70 cents on the dollar that we should be receiving.

And then, 14 or 15 months later, there is some kind of a supplemental fund sent to us that deals in part with some of the issues; but it doesn't nearly deal with the basic equity issues that we should be dealing with for these men and women who have lost their jobs, again through no fault of their own.

Senator MOYNIHAN. Now, this money is sent to you by the Department of Labor?

Commissioner HARTNETT. That is correct.

Senator MOYNIHAN. The Secretary of Labor. Who is the Assistant Secretary of Labor in charge right now?

Commissioner HARTNETT. I don't know off the top of my head. I can provide that for you.

Senator MOYNIHAN. Would you mind? If you could give us some specifics on the flow of administrative monies, we really would like to know.

Give us what you asked for and when you asked for it and what you got and when you got it.

Commissioner HARTNETT. Sure.

Senator MOYNIHAN. I mean, this is a pattern and unmistakable; and it is a pattern happening all over the executive branch. Clearly, it comes out of OMB, or I would think.

Commissioner HARTNETT. Yes. Let me conclude my testimony with one thought. The Federal Government has spent a lot of time talking about the work force of the future—Work Force 2000.

A study that they have carefully done details how the work force is changing and the types of skills that are necessary to fill the job for the future and how the U.S. must improve its skill level of all its workers if we are to remain an economic leader and competitive in an international trade environment.

Well, in New York State, the average age of an unemployment insurance claimant is 37 years old. That means that that average man or woman who is unemployed today has a good 20 to 25 years left in the job market.

Mr. Chairman, the work forces of the future are in my offices on unemployment lines today, at least a good portion of them; or worse, they have exhausted their benefits and have no place to turn.

How productive will they be over the course of the next 25 years?

While we are gearing up to meet the challenges of the work force of the future, we had best not forget the dignity and the needs of the unemployed today. The dignity and compassion that we show them in 1991 may well have a lasting impact on their productivity and on the capabilities of the work force in the next century.

I thank you very much for the opportunity to come here on behalf of Governor Cuomo and the New York State Labor Department and give this testimony; and I will be happy to answer any questions you have. Thank you.

Senator MOYNIHAN. You have answered our questions very well.

If you can give us the specifics of how the calculations have changed and particularly this denominator element of local government. That is a new one.

I remember the 1978 legislation, but I hadn't exactly noted that, plus the cash flow. Will you do that?

Commissioner HARTNETT. Positively.

Senator MOYNIHAN. Commissioner, we thank you very much.

Commissioner HARTNETT. Thank you very much, Senator.

[The prepared statement of Commissioner Hartnett appears in the appendix.]

Senator MOYNIHAN. And it will now be our pleasure to hear from Edward J. Cleary, president of the New York State AFL-CIO.

And accompanying Mr. Cleary is Ms. Clayola Brown, manager and secretary-treasurer of the Amalgamated Service and Allied Industries Joint Board, and a member of the executive board of the Central Labor Council here in New York City.

And there is a gentleman, not yet identified, but whom Mr. Cleary will no doubt introduce to us.

Mr. President, it is good of you to come. You are always here when we need you.

We have a problem; you heard what the Commissioner said.

We have a system of social insurance in place, which we have had in place for 55 years, in statute. And suddenly, it is not working. I mean, it is being made not to work.

And when you are beginning to try to make them not work, you have something altogether new.

So, we welcome you, sir. We have your testimony, which we will place in the record. You proceed exactly as you like.

And we have Mr. Cunningham's testimony, which I think we want to insert in the record at this point. That is Bill Cunningham, who was the legislative representative in Washington. I have his testimony here on eligibility.

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

Senator MOYNIHAN. Now, Mr. Cleary, you may proceed in any way you wish, sir.

**STATEMENT OF EDWARD J. CLEARY, PRESIDENT, NEW YORK STATE AFL-CIO, ACCOMPANIED BY JOSEPH JAMISON, RESEARCH DIRECTOR**

Mr. CLEARY. Senator, I welcome the opportunity to be with you this morning and also with Clayola Brown from the Amalgamated Clothing and Textile Workers, and with her is Mark Schwartz; and with me is the New York State AFL-CIO research director, Joe Jamison, and my executive assistant, Denis Hughes.

Senator MOYNIHAN. Would you like Mr. Jamison to come up and sit at the table? Why don't you, Mr. Jamison? You are welcome. And Mr. Schwartz?

Mr. CLEARY. Senator, we welcome the opportunity to speak before the committee this morning.

For the record, I am Edward J. Cleary, president of the New York State AFL-CIO, which represents 2.3 million working men and women who belong to 3,000 local unions spread out throughout the entire State of New York. Our central body represents approximately 38 percent of the organizable work force.

I would like to compliment the Senator today for taking the initiative in calling this hearing. Thank goodness that the working people in the State of New York have a friend like you in Congress who will recognize that the act that took effect in 1935—the Social Security Act—hasn't been forgotten. A lot of people don't realize that it is one of the most effective pieces of social legislation still in effect in 1991.

Senator MOYNIHAN. Yes.

Mr. CLEARY. And you have been one who has maintained vigilance in making sure that people recognize that fact in Washington; and for that, we thank you.

It is getting harder and harder to find reliable friends in Washington who will address the social issues facing this Nation. In talking to union leaders in the past few weeks and months, believe me the atmosphere is not "business as usual." Their mood is grim.

I find a level of disgust and anger with the trend of developments in Washington, DC that would be hard to match. By comparison, in the first months of the "Reagan onslaught," as we called it in the labor movement, in 1981, labor was truly on the defensive, and we could count on stiff resistance to labor's programs by Reagan's friends in Congress.

For 10 years now—1981 to 1991—in Congress we cannot count on much support at all, not even on the issues that we have identified as the "do or die" for us. Some of the grim realities that we are looking at today make this field hearing important to us in organized labor.

Not only do we face a hostile White House and a deepening recession.

We face a remarkable realignment of allegiance by people in Congress whom we assumed would be with the working people of this nation. This has a direct bearing on the topic of today's hearing: unemployment insurance.

It hasn't gone unnoticed, that, unlike its actions in the recessions of 1975, 1980, and 1982, Congress has so far not acted to extend unemployment benefits beyond the maximum period allowed for individual States.

Senator MOYNIHAN. That is true; that is the record. I did not mean to interrupt you, but in 1975 and in 1980 and in 1982, it was just a given that if the economy goes down to that point, we do something on the subject.

Mr. CLEARY. Yes, sir.

Senator MOYNIHAN. It was a routine response. We seem to be in another era.

Mr. CLEARY. At present, we are going through a sad situation in the State of New York, where we are seeing public services being denied to the people in our State, with thousands of public employees being laid off.

I am a building tradesman; and I am watching the unemployment rate in the trades soar about 25 percent, just in the City of New York. It seems outrageous to me that AFL-CIO President Lane Kirkland's sensible appeal for a broad anti-recession program—rebuilding the Nation's infrastructure, such as crumbling highways, bridges, and other facilities and building affordable housing for low- and moderate-income Americans—was greeted with a big yawn on Capitol Hill a few weeks ago.

And it would be wrong if I didn't commend you for your efforts to bring this issue to the attention of Congress again.

Senator MOYNIHAN. And we did get a surface transportation bill out.

Mr. CLEARY. Congress fails to realize that the highways of this Nation were built to serve the communities that arose alongside the highways; and we are letting those highways deteriorate to such a point that our communities are being deeply affected.

Few seem to take the unemployment of construction workers very seriously at all; and to cap it all off, there is the health care crisis, an issue that affects all of organized labor and millions of others as well.

Senator, it is a depressing scene. Labor is determined to find a way to shake up leaders of both major parties; and come August 31, the AFL-CIO—the labor movement in this Nation—has rented out the Metropolitan Metro system in Washington, DC, to allow, we hope, between 200,000 and 500,000 working men and women from across this country to express themselves on the many issues that are facing this Nation.

We seem to forget that this Nation's greatest asset is working people, who are taking second place today to other priorities. That has to be changed.

And the national AFL-CIO thought that on August 31, it would be a good way to start the Labor Day weekend off, by demonstrating in Washington and bringing to Congress' attention the needs of working people.

Before I get into Labor's specific proposals about reforming the unemployment insurance system, I want to talk about the human reality of unemployment. I want to talk about the pain.

I can't remember a recession in which the economic experts and top policy makers spent more energy in trying to forecast its end and less energy in adopting policies that would actually bring that end about.

The end of this recession is forecast almost daily. Just the other day, The New York Times ran an article suggesting that since macaroni and cheese sales—the poor man's food—has leveled off, it means that consumers are feeling better and are upgrading their food purchases.

So, maybe the end of the recession is at hand. In my view, like Mark Twain's death, the demise of this recession has been announced prematurely.

Every experienced trade unionist knows that even when production starts upward again, it can be 2 to 3 weeks or more before the employment levels regain previous peaks. That means 2 to 3 years of pain.

It is easy for those of us who spend our lives discussing legislation and policy to forget the pain behind the statistics. It is easy to lose a sense of urgency.

Our sense of urgency about reforming the unemployment insurance system should be determined not by an estimate of what we can persuade the most sluggish legislator to do, but by the needs of the child in the slums of our cities who is suffering from the joblessness of his or her parents and who faces a world full of drug addiction, alcoholism, homelessness, physical abuse, parental desertion, and neglect as a result.

I just can't help but think that, in the last couple of weeks, what has been on television. We have seen program after program about the abuse of children; and not one of those programs referred to the parent being unemployed or the guardian being unemployed.

Joblessness has a big part to play in all of it.

We see acute social problem in the smallest of towns, not just in the big cities. Talk about drugs. People say, oh, that is New York City or it is Rochester or it is Buffalo. It is in the Jamestown and the Watertowns and the Oswegos of our State as heavily as it is in any other place.

It is my opinion that the papal encyclicals and pastoral letters are documents often cited but rarely read. I am one of those people who actually reads such documents, and I would like to quote a passage from "Economic Justice for All," a 1986 pastoral letter by the U.S. Catholic Bishops on Catholic social teaching and the U.S. economy. It deals with the human reality of unemployment. I quote:

"The severe human costs of high unemployment levels become vividly clear when we examine the impact of joblessness on human lives and human dignity. It is a deep conviction of American culture that work is central to the freedom and well-being of people.

"The unemployed often come to feel they are worthless and without a productive role in society. 'We don't need your talent. We don't need your initiative. We don't need you.'

"Unemployment takes a terrible toll on the health and stability of both individuals and families. It gives rise to family quarrels, greater consumption of alcohol, child abuse, spouse abuse, divorce, and higher rates of infant mortality. People who are unemployed often feel that society blames them for being unemployed.

"Very few people survive long periods of unemployment without psychological damage, even if they have sufficient funds to meet their needs. At the extreme, the strains of job loss may drive individuals to suicide."

There is quite a lengthy quote out of that pastoral letter that deals with unemployment. And I think it is very important to the committee not only to read this part, but, I think, the whole pastoral.

Our proposals. What are labor's proposals for reforming unemployment insurance?

The system is failing miserably. Born out of the economic chaos of the Great Depression, the objective of unemployment insurance was twofold: to cushion workers against the shock of joblessness and to bolster purchasing power of the unemployed during an economic downturn at a time when total consumer spending would be



declining. As such, the program was designed as a safety net for both unemployed Americans and the U.S. economy.

Millions of jobless workers have exhausted their benefits without finding a job. Millions of others did not qualify in the first place because of severe limitations imposed by some States. And more than a million discouraged workers are no longer counted as unemployed because they gave up looking for a job.

Senator, you, I believe, chaired the hearing in Washington where the national AFL-CIO Legislative Department outlined our position. The heart of our position is that the unemployment compensation system needs immediate reform to provide extended benefits, expanded eligibility, and adequate funds for efficient administration of the program.

And for the sake of brevity, I will only refer to the highlights. I could detail some areas, but you have our views in front of you on those three major positions.

Let me close on one point. The insolvency, I believe, was touched on briefly before.

Senator MOYNIHAN. Yes.

Mr. CLEARY. So, there is no sense in my going into that. Let me just conclude my remarks by saying that the problems of eligibility standards, the benefit levels, the disqualification period, a flawed extended benefits program, inadequate funding of the State unemployment compensation and employment services, and the financial solvency of the State trust fund all require urgent action by Congress.

Representative Downey has introduced H.R. 1367, and the AFL-CIO supports that bill as a good first step. The Downey bill is a step forward toward effective Federal standards to widen eligibility for benefits. A new and improved Federal supplemental compensation program is needed to deal with benefit exhaustion and more funding for State administration of the UI.

It should be noted, however, that the Downey bill does not raise the miserably low level of State unemployment insurance benefits.

Senator, again, on behalf of the New York State AFL-CIO, we thank you for the initiative in calling this hearing; and like our national office, the New York State AFL-CIO is eager to work with you to advance legislation in this area. Thank you.

Senator MOYNIHAN. Thank you, sir. I chaired that hearing that took place on April 23rd. Nothing has happened since. Tom Downey has a bill on the House side. We have a bill now that I think you would like; it is a pretty good bill, put forward by Senator Riegle and I and some others on the committee.

Nothing is moving. The administration is just saying no. Do what you will—fine; we will veto it. The Department of Labor is brain-dead on this subject.

That point about administrative funds; not in 50 years has the question ever arisen about that money not flowing to the States. It is for the States; it is a trust fund. It comes out of a tax levied for this purpose and is held in trust and not to spend it is a way of breaking that trust.

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

Senator MOYNIHAN. Ms. Brown, good morning.

**STATEMENT OF CLAYOLA BROWN, MANAGER AND SECRETARY  
TREASURER, AMALGAMATED SERVICE AND ALLIED INDUS-  
TRIES JOINT BOARD, AND MEMBER, EXECUTIVE BOARD, CEN-  
TRAL LABOR COUNCIL, ACCOMPANIED BY MARK SCHWARTZ**

Ms. BROWN. Good morning, Senator. First let me echo the comments made by my president, Ed Cleary, in saying that we are very pleased to have the opportunity to present this to you this morning, not only because it is you but because of your long record, the 30 years of experience that you have had, and your compassion for working people and your thorough understanding of unemployment insurance.

Senator MOYNIHAN. Quasi-thorough. I once knew this very well, but now I find it difficult. I don't recognize the system that I once knew; I was once an Assistant Secretary of Labor. Not having quite followed it, it has changed right in front of our eyes.

Ms. BROWN. Well, your understanding is certainly 130 percent better than that of those elected officials in the Bush administration who are so impassionately taking the steps that they are taking; and we do appreciate all of your efforts.

Senator MOYNIHAN. Thank you.

Ms. BROWN. For the record, my name is Clayola Brown. I am a Vice President of the Amalgamated Clothing and Textile Workers Union and the Manager of the Amalgamated Service and Allied Industries Joint Board of our union.

Our union represents thousands of women and men in New York. We make clothes and the textiles that go into those clothes. We work in the giant commercial laundries and small tailor shops in this State, and we are hurting.

I know we are pressed for time, and I am certainly not a professional economist—

Senator MOYNIHAN. No, you are not pressed for time at all.

Ms. BROWN. All right. Then, I will take my time and try to make my points clear.

Senator MOYNIHAN. Take all the time you want.

Ms. BROWN. Thank you. Now, President Cleary has talked about the full State; and what I would like to attempt to do this morning is to draw a personal, closer, smaller look at how it is affecting certain groups of folks within our State, by giving you some examples.

Now, as I said before, I am not a professional economist, but I do recognize a recession when I see one. I don't have to look at BLS figures or any of those kinds of things to see that we are in trouble.

All I have to do is take a quick look at our union halls, and these days those union halls across our particular union, as well as many other unions, are absolutely packed with unemployed workers. Make no mistake about it; we are in a recession.

Our members are not working full time. They are either working part time, slow time, short time—most of which are made up—and working temporary situations, where it is a day here and a day there, even to the point of work sharing.

There are just not enough jobs out there; our companies are closing. This is a real recession; we know it. We have been there before, and it doesn't look like we are anywhere near having it over.

Let me share with you a question that all union officials are getting every week these days: "What do I do when my unemployment benefits run out?" This was a new question for most of us and one that is being proven to be a very difficult one, one that is very hard for us to answer.

But I said this is not the first recession. So, what happened? What has changed?

The unemployment insurance system has changed. It has gotten worse. During most of the recent recessions, our members could collect benefits for 39 or 52 or 65 weeks; by then, they would find a job. Not now.

Now, it is 26 weeks of benefits; that is why they are coming to us with no jobs and no money coming in.

Distinguished Senator should remember that question—you in particular, Senator Moynihan. I don't have an answer for the operators at Dino Clothing. I don't know what to tell the workers at Best Metropolitan Laundry or the pressers at Manhattan Coat Factory.

Maybe some folks who don't understand how important this issue is ought to visit them and give them an answer that is going to be satisfactory. Right now, we don't know have an answer that is.

Our members do not want charity or welfare. We are immigrants and we are minorities. We are mostly women, and many are single mothers. We are proud, hard-working people.

We want jobs; and if there are no jobs, we want the unemployment insurance benefits we deserve.

We get asked other questions a lot these days: "Why was my claim turned down? Where is my check?" The unemployment insurance system is like a battlefield. More companies are challenging claims, and there is more red tape. It seems to us that it is very unfair, and it is unfair.

Our union is glad to see that some attention being paid to unemployment. This is a chance to fix up the unemployment system before more of our members and other people have to suffer.

We have some ideas that we would like to offer to you.

First, 26 weeks of unemployment is not enough. How can we justify only 26 weeks of benefits when there is \$8 billion sitting in the UI trust fund? What are you waiting for?

Senator MOYNIHAN. And you heard Commissioner Hartnett say that OMB has estimated that that trust fund will add another \$1 billion.

Ms. BROWN. Absolutely.

Senator MOYNIHAN. Now, that is enough. That is enough, that the trust fund for extended benefits should rise during the longest, deepest recession we have had in a decade.

Ms. BROWN. Extend the benefits and not for just 7 or 13 weeks, either. Spend the money that is on hand now. How come the U.S. Government does not declare unemployment a national emergency? We should demand that Bush do so.

And how is it that when the savings and loan bankers need an emergency, they get one; but when hard-working people lose their jobs, nothing happens?

The unemployment insurance system was supposed to put money in the hands of working people to tide them over the rough times. That money would keep the economy going.

It was not supposed to be a stick to beat down the private sector wages. It was supposed to be a safety net; 26 weeks of benefits is not enough.

Second, we would like to stop treating people like beggars. Stop the red tape, the delays and the hassles. I am sure you have heard many stories of people going down to unemployment trying to collect benefits and having to wait a very long time to even be seen and then being treated as if they are being given a precious hand-out, rather than receiving those benefits they contributed for and to.

Senator MOYNIHAN. I have heard those stories, Madam Vice President; but I do have to speak up for those wonderful people who run the U.S. Employment Service. Their heart bleeds a little bit every time someone refers to their place as the unemployment office; there is nothing you can do about it because it is part of the language.

But for 50 years, they have said: No, no, we are the employment office.

Ms. BROWN. Well, be that as it may—an employment agency—the people are treated when they go there in an inhumane fashion. They have to wait for long hours; they get served as if they are being handed a handout.

And in many cases, they are not clear on when their benefits will begin—waiting 5, 6, 7 weeks before receiving any kind of a check.

Senator MOYNIHAN. Yes.

Ms. BROWN. A lot of that has to do with monies not being there to employ the number of people necessary to be able to handle the load of unemployed workers who go in for assistance. The money is there and should be utilized in that manner.

Third, if the function of UI is to maintain income, what sense does it make to tax the benefits?

Unemployment benefits are a smaller percentage of earnings today than they were a generation ago. That again is not fair.

The recession is not over; look at the headlines. High unemployment is threatening any chance of a recovery.

The recession started early in New York, and it looks like it will end late. The New York area lost 100,000 private sector jobs in 1990. The predictions are that this rate will continue for the next 2 years.

We need help now. We need programs to keep industrialized jobs in New York, and we need decent benefits for the unemployed while we are developing new jobs.

We are looking for leadership from our elected officials; and if President Bush says things are fine, the House and Senate better open their eyes and say: No, they are not fine—not in the factories and the laundries of New York.

I do not have time to discuss in detail the merits of the Downey Bill or of the Riegle Bill. Our union is working with other unions and with organizations of the unemployed. We will submit detailed responses to these bills.

But let me say that what we have heard about the Riegle Bill is not very positive. Under its rules, New Jersey would not qualify for additional benefits. Explain that to our unemployed members in Union City or in Paterson. We need bold leadership, not timid supply-side economics from Democrats.

Why do the Democrats keep trying to out-Bush Bush? We don't want a little better, a little kinder, and a little bit gentler, but still very bad unemployment insurance system. We want one that takes care of the unemployed during hard times. That is what our members are calling for. That is what we will judge our elected officials on.

We will judge unemployment insurance reform on these three simple points: extended benefits; treat us with dignity; and stop taxing benefits.

What would you think about a union that took dues money from members for years and then forgot about them when they lost their jobs? You would think that that was a cruel and selfish union, one that does not deserve the name of union.

Then, what should we think about a government that takes taxes from these same hard-working people for years and now forgets about them when they lose their jobs? This is a cruel and heartless government.

You have the chance to change this situation; and I ask you now to please do so.

Senator MOYNIHAN. We thank you very much, Ms. Brown.

[The prepared statement of Ms. Brown appears in the appendix.]

Senator MOYNIHAN. On your point, there was a story in the Times this morning that jumped out at me, that machine tool orders fell 20 percent in May—19.6 percent—"that orders for American-made machine tools fell in May for a third straight month, dropping 19.6 percent from the April level.

"The drop comes in spite of predictions by makers of machine tools and the industry trade group, the Association of Manufacturing Technology, that industry orders would generally improve, as American business began spending to upgrade their manufacturing plants.

"Analysts interpreted the May figures as evidence that capitol spending continues to show little sign of rebounding, and that the nation's economy remains in recession despite recent signs . . . "

You are not going to get a better leading indicator than machine tools. I am sure Mr. Schwartz and Mr. Jamison would agree.

Mr. JAMISON. Right.

Senator MOYNIHAN. You are right; our bills are not exactly roaring assertions, but we are going to have trouble even getting them heard. Such is the condition of the politics of our times in Washington.

You saw what happened with the Mexican fast track—the same Finance Committee, the same place and the same committee. And I see Mr. Schwartz responds to that.

If I could just ask you to listen to our point of view for a bit. I want to say to you that I don't think the AFL-CIO has been nearly indignant enough about the use of the Social Security Trust Funds as general revenues.

That should be an outrage—I mean, a blatant self-interest. You know, Franklin D. Roosevelt was once asked in 1941 by a professor up at Columbia who was down in Washington; and he was doing some work. He went to see Roosevelt; they knew each other from New York Governor days.

And he said: You know, I have been thinking about these Social Security Trust Funds. You know, we spend an awful lot of money just recording people's names and numbers and all that; it doesn't make any sense. We could do it much better; just bring the money in and pay it out. Don't worry about it.

And Roosevelt said: I am sure you are right from the economics of it; but no. I want every nickel in that trust fund to have someone's name on it so that no politician can get a hold of that money and do whatever they wish with it.

And that is exactly what has happened. \$2 billion a week; by the end of this decade, it will be \$4 billion a week. It is being used as if it was general revenues, and nobody is mad about it. And you know why, Ed?

Do you really want to know why? Secretly, the bureaucracy thinks that sooner or later they will be able to spend the money on a new program. And therefore, the indignation concerning the Social Security trust Funds ought to be passing over to indignation about the unemployment trust fund, but it is not there.

It is not there; it ought to be. That doesn't mean it won't be, but it hasn't been yet. I am sorry; I am not the witness here. [Laughter.]

Mr. CLEARY. Senator, just a comment on the trust fund—the Social Security Trust Fund. I think if you were to poll all those in this Nation between 18 and 30 and ask them what they knew about the Social Security Trust fund—how it came into being, what the purpose was, and all—they will tell you it is to help somebody when they reach the age of 65.

And if you were to say: Is there anybody here who had a parent that died and was raised with the monies out of the funds—

Senator MOYNIHAN. Yes, survivor's insurance.

Mr. CLEARY. Younger people just don't identify; they just remember their mother possibly getting a check.

Senator MOYNIHAN. Right. Survivor's insurance never gets associated with it.

Mr. CLEARY. I find that our failure lies in our not educating them. This is as we have said before, this is the longest, most effective piece of social legislation working in this country, outside of the Constitution, since 1935 to the present.

And we don't put enough emphasis on teaching the importance of that legislation through both grammar school and high school. Then, you would have a different recognition of Social Security Trust Fund and they would recognize your point that the money being deducted to go into general revenues is just another hidden tax on them.

Senator MOYNIHAN. I have one thing working; it will take a little while, but you know things take a little while in Social Security. And that is that in about 3 years time and I may even be able to speed it up—workers will start getting an annual account of what they put into the system last year; what they have paid in over time; what their survivor's benefits would be if one or the other spouse died; what disability benefits would be; what you could expect if you go on the way you are going and get benefits at age 65.

And people can get it by just writing. The majority of nonretired adults today do not think they will get Social Security benefits. But I think once you get that statement in your twenties, you may lose it or throw it away. But by the time you get in your forties, you are going to find a desk drawer and put it in there.

You are going to know that is your money, and you are going to recognize it as survivor's insurance.

But we could get our indignation levels up a bit on all these things, and I thank you very much. I won't promise anything except we will try, and I will take this back.

Ms. BROWN. You mentioned this has been since April. Is there anything that we can do to help make it move?

Senator MOYNIHAN. President Cleary there has some friends on 16th Street, and so do you. Thank you all very much.

Mr. CLEARY. Thank you, Senator.

Senator MOYNIHAN. And now, we have a panel that consists of Ms. Lillian Layton, who is the chairperson of the New York Chamber of Commerce and Industry Committee on Unemployment Insurance; and Mr. Robert DuVal, who is vice chairperson, New York State Business Council Committee on Unemployment Insurance.

Good morning. It is very good of you to come down. Well, you don't have to come down; you live over here, don't you?

Ms. Layton, good morning, and welcome to the Committee on Finance.

Ms. LAYTON. Good morning.

#### STATEMENT OF LILLIAN LAYTON, CHAIRPERSON, NEW YORK CHAMBER OF COMMERCE AND INDUSTRY COMMITTEE ON UNEMPLOYMENT INSURANCE

Ms. LAYTON. I represent the New York Chamber of Commerce and Industry here this morning. I chair the Chamber's Committee on Unemployment Insurance. I also represent employers on the New York State Advisory Council on Unemployment and Employment.

At the present, I am a consultant with the New York City Transit Authority doing their unemployment insurance, and formerly I was a staff director on unemployment insurance for the NYNEX Corp.

The New York Chamber of Commerce and Industry represents the views of the down state employers. As such, the Chamber has several concerns regarding potential changes in the unemployment insurance program.

I would like to direct my remarks to problems of the Unemployment Insurance Trust Fund, as part of the unified budget—which you hear over and over—to adequate funding and financing of the Unemployment Insurance Administration, and the anticipated military downsizing and veterans' rights.

Senator MOYNIHAN. Oh, yes.

Ms. LAYTON. To provide a sound unemployment insurance program, there must be adequate financing that can weather the cyclical and other economic storms without endangering its mission of providing income to workers who lose their jobs through no fault of their own.

In 1969, the Unemployment Insurance Trust Fund was made part of the unified budget. Apparently, Mr. Charles Schultz, the Economic Advisor to the President at that time, believed that by unifying cash funds such as unemployment insurance, the public could better understand the budget process; and unification could serve the objectives of a balanced budget.

Unemployment Insurance Trust Fund monies—

Senator MOYNIHAN. Now, Ms. Layton, you are free to state that; but you are also free to say that you don't, for a moment, believe that, do you?

Ms. LAYTON. No, I don't believe it.

Senator MOYNIHAN. All right. We don't want this record to suggest that a credulous official appeared from the Chamber of Commerce and Industry—

Ms. LAYTON. As my next sentence says, Unemployment Insurance Trust Fund monies collected under the Federal and State laws can only be spent on benefits and administrative costs.

The Federal Government is only the trustee of the funds. To show such funds as a proper reduction in the Federal budget is inappropriate.

Senator MOYNIHAN. Yes. If I could just interject—and you don't mind if I do?—this practice began at a time when the administration in office was trying to conceal its operating deficit—that was in the Johnson years.

Ms. LAYTON. I know it started with Johnson.

Senator MOYNIHAN. And it cycled around to another situation. And the same thing is happening; it is different origins, but it is the same approach, which is to use the trust funds.

Ms. LAYTON. Consequently, each time the Federal Government implements an austerity budget, the Unemployment Insurance Program suffers, and each time the Department of Labor has been forced to face reductions in force, resources and programs in New York.

In 1979, the New York State Department had about 14,000 employees. In 1991, there are approximately 6,000 employees serving 224,000 persons who filed claims for benefits by the end of April.

Senator MOYNIHAN. Now, help me here. Is that the U.S. Employment Service in New York?

Ms. LAYTON. That is our own New York Department of Labor, right here in the State, Mr. Hartnett's organization.

Senator MOYNIHAN. Mr. Hartnett? And unemployment insurance claims are processed by New York State employees as against the U.S. Employment Service?



Ms. LAYTON. That is correct. New York State Department of Labor processes the claims that are processed in New York State.

Senator MOYNIHAN. Now, you are asking me to believe that a New York State government bureau had its employees cut by 60 percent?

Ms. LAYTON. Absolutely. That is correct. We are not very happy with it, Senator, because you have heard President Cleary and Tom Hartnett talk about the administrative problems that have resulted from this. And we, as the employers in New York State, have seen the same kind of problems.

Senator MOYNIHAN. It is their money. I mean, you pay the tax whether people get their unemployment benefits or not.

Ms. LAYTON. But when we pay our money, we have been paying a little more as a result; and I will make that point a little later.

Senator MOYNIHAN. Good.

Ms. LAYTON. Not only were there reductions in force, the New York State Department of Labor had to reduce or consolidate from 160 local offices in 1979 to 89 today. But New York State, at the same time, experienced the full brunt of the current recession since the first quarter of 1989 and is not bottoming out as the newspapers speculate.

Senator MOYNIHAN. Or, in fact, as last week's Times indicated.

Ms. LAYTON. In fact, Friday's New York Times and The Wall Street Journal had articles showing the unemployment rate is still climbing.

Employers meet their obligations in maintaining the administrative funding by paying the Federal Unemployment Insurance Tax (FUTA). They have every right to expect that the Department of Labor—

Senator MOYNIHAN. The U.S. Department of Labor?

Ms. LAYTON. No, sir.

Senator MOYNIHAN. New York Department of Labor. You are in New York, right.

Ms. LAYTON. I am in New York; I speak for New York.

Senator MOYNIHAN. That is fair enough, fully understood.

Ms. LAYTON. To fulfill its obligation to maintain adequate administrative services.

It is not helpful to "freeze" the funds by making them discretionary under the Budget Enforcement Act of 1990 to prevent them being disbursed in the mandatory manner.

What can be done to resolve this impasse?

I know it is easy to say: "Remove the Unemployment Insurance Trust Fund from the unified budget." But unless it is recommended and supported by a higher level consensus, nothing will be done.

Therefore, the New York Chamber recommends that a "blue ribbon commission" be formed of top notch representatives from the public, academics, labor, and business. Their mission would be to study and make recommendations to improve the Federal budget process, including the disposition of trust funds. The commission should be empowered to develop strategic and pragmatic solutions to the Federal budget process.

It is our understanding that there is a bill now pending in Congress to provide additional administrative funding. Employers sup-

port its passage. There are adequate funds in the FUTA account to meet such demands without higher employer taxes.

A study conducted nationwide in March 1991 revealed that 350,000 claimants exhausted their unemployment insurance benefits nationwide. New York State exhaustees totaled 90,000, or one-quarter of the nationwide figure.

Unemployment insurance exhaustees in New York State at the end of May 1991 were over 125 percent higher than the same period last year or the year before. Employers recognized that there is a need to identify, train, and financially help these workers.

Employers believe that these workers should be served by a Federal program and not on the shoulders of employers who also feel the pinch of the recession.

In the early 1980's, the Federal Government had a program called Federal Supplemental Compensation, which paid additional benefits to claimants who exhausted their regular benefits. The employers would like to see this program activated.

As you are aware, Senator, 10 States have already triggered extended benefits. This is not without its difficulties. In New York State, due to the recession, the unemployment insurance fund has declined dramatically from the high of \$3.5 billion in 1989 to less than \$2.1 billion at the end of May in 1991 and is still declining.

New York employers will pay higher unemployment insurance tax dollars in 1992. New York State employers support the Employment Service as an appropriate labor market exchange, and its funding is derived from funds from employer FUTA taxes.

Senator MOYNIHAN. Right.

Ms. LAYTON. The Employment Service speeds the return to work of unemployment insurance claimants. The Chamber would like to suggest that a pilot study be made by using funds from the Joint Partnership Training Administration.

Senator MOYNIHAN. Isn't that job partnership—JPTA?

Ms. LAYTON. Yes, I am sorry. Job, right. The study should be conducted by the New York State Employment Service.

As you know, employers are required to provide employees of plant closings. Instead of offering help after the plant closes, it is recommended that the Employment Service become proactive and be involved as early as possible to save the business and its workers.

The Employment Service should provide guidance and training and help find new products before the business goes under.

A small business which did about 90 percent of its business in defense contracts was adversely affected by defense cutbacks. The employer developed new products and got his employees involved in new training programs. Today, it is a going business, doing less than 20 percent in defense manufacturing.

The employer has told the Department of Labor that he wished that the guidance and resources offered by the Employment Service were available to him in a timely fashion.

The Department of Defense is starting a transitional downsizing of the military. It is our understanding that the Department of Defense has a budget of \$200,000,000 to accomplish its program and

plans to have its five services, each with its own internal organization, to administer downsizing.

Such fragmentation of out-placement services in competing agencies is not helpful, wasteful, and duplicates facilities already in place in each State in the employment service area.

Every State agency has the expertise and personnel in place which can handle the demands of the veterans and civilian workers affected by the downsizing much more effectively than any new ad hoc organization set up in each service.

Veterans normally return to their home States. New York State anticipates 1,000 veterans per week returning to New York to live. They will apply for help here in our State.

The Department of Defense should be directed to use the existing employment service in each State. This is a temporary problem, and States are best equipped to handle it. In fact, in 1918, the Department of Defense sought help from the Employment Service.

Senator MOYNIHAN. Yes. Good for you for finding that.

Ms. LAYTON. A newspaper article on that subject at that time is attached for your information.

Senator MOYNIHAN. I saw it.

Ms. LAYTON. Lastly, veterans should be entitled to the same benefit rights as other claimants and legislation should be enacted to protect their rights.

As I have stated, New York employers are interested in preserving the unemployment insurance system and would like you to consider the thoughts set forth in this paper, namely: the blue ribbon commission to study the Federal budget problem; adequate unemployment insurance administrative financing; directing the Department of Defense to use the State Employment Services and to protect veterans' unemployment insurance rights.

I want to thank you very much for letting the New York Chamber and me speak to you this morning, and I would like to say thank you for extending your courtesy the other day to us.

Senator MOYNIHAN. And those are very positive thoughts, and we have been making notes.

Ms. LAYTON. Thank you very much.

[The prepared statement of Ms. Layton appears in the appendix.]

Senator MOYNIHAN. Let's hear from Mr. DuVal next, and then we will see how the two of you compare.

Mr. DUVAL. Good morning, sir.

Senator MOYNIHAN. Do you have a colleague?

Mr. DUVAL. Yes, sir. To my left is Michael Bottleman, who is an associate of mine.

Senator MOYNIHAN. Good morning, sir.

Mr. BOTTLEMAN. Good morning, sir.

Senator MOYNIHAN. We welcome you to the committee.

**STATEMENT OF ROBERT DUVAL, VICE CHAIRPERSON, NEW YORK STATE BUSINESS COUNCIL COMMITTEE ON UNEMPLOYMENT INSURANCE, ACCOMPANIED BY MICHAEL BOTTLEMAN**

Mr. DUVAL. Thank you for inviting me today to express my views. As I stated, my name is Robert DuVal, and I appear here today on behalf of the New York State Business Council's Commit-

tee on Unemployment Compensation. I serve as vice chairperson of that committee.

Basically, I believe that the Federal—State Unemployment Compensation System is doing a good job of achieving its desired goals; and I don't ascribe to the view that it is broken and needs fixing.

However, in keeping with your invitation, I do have opinions as to certain things that might need to be amended, especially in the area of Federal legislation.

First of all, I am pretty much in agreement with everyone I have heard so far that the administrative trust funds—the FUTA funds—that remain part of the unified Federal budget should be separated. And more of that money should go back to the States for administrative use.

Senator MOYNIHAN. You all do know that making them separate, taking them "out of the budget," won't change anything on the ground unless the administration decides to use the monies for purposes that they were collected.

Mr. DUVAL. I realize that; they have to be appropriate. Yes, sir.

Senator MOYNIHAN. And it may be that it is easier done that way; but as long as the money or cash flow comes in and the Federal Government can exchange that for bonds in the trust fund, then it has the cash. And it is a new thing.

It is a new thing to be seriously using large amounts of trust fund income as general revenue. It isn't general revenue; but instead of having to borrow from the public, you borrow from the trust funds.

Ms. LAYTON. Is the interest rate any lower?

Senator MOYNIHAN. Pardon?

Ms. LAYTON. Is the interest rate any lower?

Senator MOYNIHAN. Well, it might be higher. You know, with the trust funds, the Social Security surplus would be about \$200 billion a year. That has to have an effect on the Treasury, doesn't it?

Mr. DUVAL. I see several difficulties that have arisen as a result of the inadequate financing for the States. In that particular area, I found that the States are taking shortcuts in operating their systems.

In New York particularly, I find the lack of due process in the hearings area. In addition, I find that the States have taken the shortcut of instituting mail reporting. And without close contact and supervision of the claimant population, they have to some extent eliminated the requirement of being ready, willing, and able in seeking a job.

I find that these things are most often explained by State agencies as a result of inadequate financing, sir. So, I would hope that any legislative initiatives that you might embark upon would not only increase the financing to the States, to ensure that, but also would possibly ask the States to tighten up their operation and reinstate some of the services that they had provided in the past.

Specifically concerning the administrative funds and the Federal budget, I find that at the State level Unemployment Compensation Trust Funds are kept separate from the general tax revenues and are not to be used for any purpose except for paying of benefits to the claimants.

As a result of this policy, as well as general economic conditions, State trust funds in the past several years are at record solvency levels. State accounts contain approximately 2 percent of total wages; this is the highest percentage in 18 years.

Senator MOYNIHAN. New York State? Or is this National?

Mr. DU VAL. The national level.

Senator MOYNIHAN. Yes. 2 percent.

Mr. DU VAL. New York State alone has about \$3 billion in its fund. Such surpluses in the State funds have led to decreases in employer tax rates. However, this has not been the case at the Federal level.

And actually, we have had the temporary FUTA tax increase of two-tenths of a percent for quite some time now; and it puzzles me how that tax can stay when we have a surplus.

Senator MOYNIHAN. It puzzles you, does it? [Laughter.]

Mr. DU VAL. Yes. I would say there is a disincentive for the Federal Government to fund adequately the various State programs if appropriation of these dedicated monies will appear to heighten the Federal deficit.

Senator MOYNIHAN. Yes.

Mr. DU VAL. And I think that is probably what is at the core of the problem here.

Many State agencies, including New York, have reduced services and complain bitterly about reduced funding for their operations. I believe that it is in the interest of everyone that State operations be properly funded.

FUTA funds are marked for administration of the Unemployment Compensation System. Piling up more than an adequate surplus for the purpose of stating a better balance in the unified Federal budget is unnecessary and wrong-minded. One can argue forever about what level of service is adequate.

But it is only by separating the FUTA revenues from the unified Federal budget that we can be certain that the level of funding is not being determined by factors other than those maintaining the integrity of the State systems.

Some have advocated the need to increase the Federal taxable wage base. Now, such claims should be regarded with suspicion as long as FUTA funds remain as part of the Federal unified budget.

The Business Council membership is of the opinion that the Federal taxable wage base is adequate in achieving its goal of maintaining adequate surpluses. As such, there is no need to raise the Federal wage base.

Various States may need to raise their State wage base to meet funding requirements which are greatly influenced by their divergent tax rating formulas. These States have already done so; other States have not, but there has been no need to raise the wage base.

I mentioned before that I thought that States were taking various shortcuts as a result of the inadequate funding. And in that line, I would like to state that claims of inadequate funding for State operations have been offered to explain several shortcomings in several State systems.

In New York, for instance, employers are not sent hearing notices nor are they permitted to participate at many hearings which involve the issue of availability or capability. As I have said, I find

this a serious due process violation, and it is only as a result of inadequate funding.

Senator MOYNIHAN. Ms. Layton, would you feel that we have a serious due process issue here?

Ms. LAYTON. We have certainly an administrative funding process which comes out. It reflects itself in longer lines at the local offices; people waiting longer for checks; employers unhappy sometimes as to how this is working.

Senator MOYNIHAN. Yes. This is all grim. You know, we have 55 years experience with this; we are not supposed to have any trouble making this thing work.

Ms. LAYTON. Sometimes it is the definitions that are used, as ready, willing, able, and capable.

Senator MOYNIHAN. Yes.

Ms. LAYTON. And this presents a problem.

Mr. DUVAL. There are a lot fewer workers working in State agencies than there had been as few as 5 years ago, and maybe even 2 or 3 years ago.

Senator MOYNIHAN. As Ms. Layton said: 40 percent of what they were.

Mr. DUVAL. I wouldn't know the exact statistics, but I wouldn't be surprised.

Senator MOYNIHAN. That is what your colleague has testified.

Mr. DUVAL. I believe that.

Senator MOYNIHAN. In 1979, the New York State Department of Labor had about 14,000 employees; in 1991, there are approximately 6,000.

Mr. DUVAL. So, we can't really expect them to deliver the same level of service that they had in the past.

Senator MOYNIHAN. No.

Mr. DUVAL. As I said, I tie this all in to the lack of administrative funding. There is another concern I have, though, and it is whether or not the role of unemployment compensation should be expanded.

And I believe this is the view of many people, not just to extend benefits for more weeks, but to cover categories for claims that have not been covered for benefits in the past; and this concerns me.

Many social programs have not been funded today to the extent that their proponents and special interest groups would like this year. Some programs have been cut, and others have seen lack of increased dollars; they have been maintained at the current levels.

On the other hand, and this is a very attractive other hand, the State Unemployment Compensation Trust Funds have grown in many instances; and the desires to institute programs abound. And more than one Government official has wondered how to expand the role of unemployment compensation to cover other social programs that need funding.

Any expansion of the role of unemployment compensation would be unwise in my opinion. The obvious reason is that if it then uses the unemployment funds for something else, then nothing would be left for the unemployed.

However, there are two less obvious reasons that exist. There is no needs testing in the unemployment system, whereas almost all

social programs grant aid only to those in need. Substitution of unemployment compensation into the role of funding provider would mean granting aid to everyone, regardless of their financial status or family requirements.

I don't think that that was what was intended by the original legislation, and I don't think that it would be wise to do that now.

Another distinction between unemployment compensation and other forms of social benefits is that unemployment is paid for by the employers. Other programs are funded from general revenues. Expansion of the role of unemployment compensation to cover other societal desires would be a departure from this traditional method of funding.

The Federal-State Unemployment Compensation System does its job well. I would appreciate it if no one would tamper with it, and let's see the funding in that area depleted.

Thank you for giving me the ability to give the opinions of myself and of the New York State Business Council.

Senator MOYNIHAN. I don't know if I gave you the ability or not, Mr. Du Val, but I did give you the opportunity.

Mr. DU VAL. Thank you.

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

Senator MOYNIHAN. I think those are very carefully made points. I guess I am not, at this moment, concerned about expanding the program; we are seeing it contracted before our eyes.

But you make the point and it is absolutely essential—and I am sure Ms. Layton would agree—that this program is insurance against loss of income, and it has nothing to do with any other standard of need, and is not ever to be stigmatized as being some social benefit that you were given because you were hard up.

This is insurance paid for by employers to which employees are entitled. The first unemployment insurance program in the world was introduced by the liberal government in Britain in 1991; and Winston Churchill was in charge of the Home Ministry that was going to administer it, and he handled the bill on the floor. He was the floor manager in their senate.

And a big storm arose about this, that people were given unemployment benefits—why, they would simply spend the money on drink. And he made a very important point: If that was the way they wanted to spend the money, that was their right because it was their money.

It was not a charitable benefaction; it was insurance that had been paid for. And your free-born Englishmen could spend it as they chose. And that principle is to be cleaved to; I am sure you would both agree on that.

I like that commission idea. I heard you both say that it is absurd that administrative monies should be squeezed down such that the program isn't functioning. Employers pay for this program and have a right to expect it to work.

Tell me this now. What proportion of people who lose their work go back to work for the same firm? Do you have any idea?

Ms. LAYTON. I have already seen a study on that of those who return to work, to the employer for whom they worked previously. And certainly, in the time we are in now, with employers closing down, it probably is a very high, high figure.

Senator MOYNIHAN. What would you say in a non-recession year it would be?

Ms. LAYTON. I wouldn't even venture. The person who could answer that would probably be Tom Hartnett.

Senator MOYNIHAN. We will ask him.

Ms. LAYTON. We will ask him.

Senator MOYNIHAN. Because, I mean, among other things, I would assume such employers see unemployment insurance as a maintaining an income stream, so people don't lose their connection with the firm, and they will want them back—if it is seasonal or whatever.

Ms. LAYTON. Senator, we did that with the garment industry and the furs; they used to have the seasonal. We used to do that with—industry here in New York State.

Senator MOYNIHAN. So, you want that unemployment check to get there on time.

Ms. LAYTON. Certainly. General Motors has used it as a very effective tool for retaining its qualified work staff.

Senator MOYNIHAN. Yes, sure.

Mr. DUVAL. And New York State recently set up a program—a job-sharing program, or work sharing—I forget what it is called—but it is just to encourage that, to encourage people to go back to their former employer.

And actually, employers are in favor of that because that is a person who knows the job, a person who is trained.

Senator MOYNIHAN. Yes. We have learned a lot about the costs of bringing in the new worker to an operation.

Ms. LAYTON. We certainly shall provide that information to you.

Senator MOYNIHAN. Please. Thank you.

[The information appears in the appendix.]

Senator MOYNIHAN. Thank you both very much. This was very helpful, very clear testimony. It was refreshing. I wish we could get people like you in Washington, but that is maybe beyond—

Ms. LAYTON. We did call on Paul—the other day in his new office. Thank you.

Senator MOYNIHAN. Thank you. It has been nice having you.

Now, we have an academic point of view here. Professor Philip Levine of Princeton University is going to give us some thoughts on this subject.

Dr. Levine, we welcome you; and we have your statement, which we will put in the record as if read. Why don't you proceed to tell us what you have in mind?

If I am mumbling here, it is because Senator Offner has passed me a note that says you are leaving, moving to Wellesley; and indeed, your paper says "Philip B. Levine, Princeton University and Wellesley College."

Dr. LEVINE. Yes.

Senator MOYNIHAN. Understood. We will put your statement in the record as if read. You proceed exactly as you would like, sir.



**STATEMENT OF PHILIP B. LEVINE, LECTURER AT PRINCETON  
UNIVERSITY AND WELLESLEY COLLEGE**

Dr. LEVINE. All right. Mr. Chairman, I would like to thank you for this opportunity to share some of my views on the unemployment insurance system. The issue that I would like to discuss today is the method of UI financing.

In particular, I will discuss problems created by the existence of a low taxable wage base, or a specified amount of earnings upon which UI taxes are levied, which is unadjusted for inflation. The problems that concern me are the system's financial instability and the increasing regressivity created by the taxable wage base.

While these problems may become more noticeable during an economic downturn, as we are currently experiencing, they are important regardless of the state of the business cycle.

In my remarks, I will provide some background information and then address each of these problems in turn. I will conclude by suggesting some straight-forward policy alternatives which address these issues.

I use the New York State Unemployment Insurance System, which is quite typical, as an example throughout my remarks to clarify issues.

The UI system in the United States is administered by individual States, but is subject to Federal guidelines to ensure some uniformity across States. The taxable wage base is one of the components of the system subject to Federal regulation.

The Federal Government sets a minimum wage base that must be met by all States, which is currently set at \$7,000. Thus, employers only pay UI taxes on the first \$7,000 of each worker's earnings.

States have the option of setting a taxable wage base above the Federal minimum. While in 1989 roughly two-thirds of the States had done so, the base is not substantially above the Federal minimum in most of these States.

Adjustments to the minimum taxable wage base are made in an ad hoc manner; without legislation specifying an increase, the wage base remains constant.

Senator MOYNIHAN. It is not indexed, is it?

Dr. LEVINE. No.

Senator MOYNIHAN. No? It suddenly flashed that it is not indexed. All right.

Dr. LEVINE. Adjustments have only been made sporadically since the inception of the UI system, and inflation has severely eroded its real value.

Senator MOYNIHAN. Where would that have been? Say in 1950, what would the base have covered?

Dr. LEVINE. I don't recall. In 1940, the taxable wage base was set at \$3,000, which equalled average annual earnings at that time.

Senator MOYNIHAN. Oh. Yes.

Dr. LEVINE. After adjusting for inflation, this base would provide roughly \$27,000 worth of purchasing power.

Senator MOYNIHAN. Oh, I asked the question; and all I had to do was turn the next page.

Dr. LEVINE. Right. This is four times higher than the current \$7,000 wage base. Moreover, this system of financing stands in

stark contrast to that of the Social Security System, where legislation was first passed to automatically adjust its taxable wage base to keep pace with inflation in 1972.

In 1940, the base in the Social Security System also equalled \$3,000. In 1972, the Social Security taxable wage base declined to \$9,000; and the UI taxable wage base had risen to \$4,200. Today, the comparable figures are \$53,400 for the Social Security System and \$7,000 for the UI system, respectively.

Senator MOYNIHAN. That is striking. Yes. There has been an absence of energy in this system.

Dr. LEVINE. And it has substantial implications.

Senator MOYNIHAN. Yes.

Dr. LEVINE. As a result of the declining real taxable wage base, the UI system has become financially unstable. Over the years, State UI trust funds have become increasingly likely to experience a deficit during a recession. The same holds true for New York State.

In Figure 1, which is at the end, I present New York State's reserve ratio or the ratio of the balance in the UI trust fund to total annual wages paid in the State from 1938 through the present.

The reserve ratio simply provides an indicator of the health of the UI trust fund, where larger ratios indicate larger reserves. As the trust fund runs out, the reserve ratio will approach zero, and a negative reserve ratio indicates a deficit in the fund.

A strong cyclical component is apparent in Figure 1, with the reserve ratio increasing during expansions and falling during recessions. This makes sense because during an expansion, relatively high employment leads to larger tax revenues and fewer UI recipients.

Senator MOYNIHAN. That was the idea.

Dr. LEVINE. Right. While in a downturn, relatively high unemployment leads to smaller tax revenues and more UI recipients. However, the overriding trend apparent in Figure 1 is towards lower fund reserves.

Senator MOYNIHAN. Yes.

Dr. LEVINE. In fact, the recession of 1975 led to a deficit and forced New York State to borrow funds from the Federal Government. Prior to this, the trust fund never came close to running out of funds.

While it weathered the recession of the early 1980's, reserves were at a perilously low level. In 1988—

Senator MOYNIHAN. Now, borrowing is an automatic right.

Dr. LEVINE. Yes.

Senator MOYNIHAN. So, why would you, as an economist, want to be anxious about it?

Dr. LEVINE. Because if it keeps happening more and more regular pace, in the good periods when the trust fund is being replenished, it will be replenished to a lower level; and before you know it, you will never be above—

Senator MOYNIHAN. You mean you get this pattern?

Dr. LEVINE. Exactly. Yes. So, the fact that you went into a deficit at one time is no big deal, except for the fact that it could start happening more and more regularly; and you might never get out of the deficit over time.

Senator MOYNIHAN. But I am going to ask you to tell us why that is a bad idea, if you can always borrow when you need it?

Dr. LEVINE. Because if there is no savings to ever counteract the borrowing, then you just run a continuous deficit.

Senator MOYNIHAN. I think I follow you. All right.

Dr. LEVINE. If you end up being in a deficit continually—

Senator MOYNIHAN. Oh, no. You have to pay that.

Dr. LEVINE. Yes. That is the problem here. All right.

So, just because in 1975 you ran into a deficit, that is not a problem, except it is an indicator that this problem is starting to occur more and more often.

Senator MOYNIHAN. You could reach the point where, in fact, you were the equivalent of insolvent.

Dr. LEVINE. Exactly.

Senator MOYNIHAN. Your income wasn't taking you through a 10-year period.

Dr. LEVINE. Yes. Even on average, it wouldn't be in balance.

Senator MOYNIHAN. Yes.

Dr. LEVINE. All right?

While the trust fund weathered the recession in the early 1980's, reserves were at a perilously low level. In 1988, at the peak of the business cycle in New York State, the reserve ratio was considerably lower than it was in 1973, the peak prior to the 1975 recession.

It would, therefore, appear that if the current recession became more severe and/or prolonged, the system may again face bankruptcy.

Like New York, many other State UI trust funds were in deficit following the 1975 recession, and changes were made at the time to avoid the same fate in future recessions. The Federal Government provided a strong incentive to States to keep their UI trust funds solvent by legislating that interest would be charged on future loans.

To reduce UI expenditures, some States restricted eligibility so fewer people could receive benefits. In addition, in a highly inflationary period, many States did not increase UI benefits, leading to a de facto benefit cut.

In New York State, for example, the ratio of average weekly benefits to average weekly wages—sometimes referred to as the replacement ratio—fell from 32.6 percent in 1979 to 27.9 percent in 1982. To increase revenues, tax rates were increased.

In New York, the average employer tax rate rose from 2.3 percent in 1972 to 3.6 percent in 1979. Furthermore, the amount of earnings that would be taxable—again the taxable rate base—was increased from \$4,200 to \$6,000 in 1978 and again to \$7,000 in 1983 in New York State and several other States in accordance with Federal legislation.

However, these adjustments do not address the underlying cause of the financial instability and will only provide temporary relief. The problem rests in a few simple accounting identities.

First, revenues collected are equal to the product of the tax rate and the taxable wages paid in the State.

Senator MOYNIHAN. All right. I can follow that.

Dr. LEVINE. I said they are simple accounting identities.

Second, benefits paid out are equal to the product of the number of unemployed workers and the amount of benefits they collect.

Senator MOYNIHAN. I follow that, too. That is two out of three; I am doing better than usual. [Laughter.]

Dr. LEVINE. And third, if the benefits paid out exceed revenues collected, then the balance in the trust fund must fall.

Even in the absence of a business cycle with severe downturns, these simple relationships indicate that the current system of UI financing will hopelessly drift towards insolvency. This is because benefit levels, for the most part, increase to keep pace with inflation; but taxable wages do not since the taxable base tends to be held constant.

Senator MOYNIHAN. Yes.

Dr. LEVINE. As a result, benefit payments will continually increase more than revenues, and the trust fund will continually decline. Short-term benefit reductions, penalties imposed for borrowing, and short-term tax rate increases cannot solve this problem in the long run.

To illustrate these concepts, consider the example of New York State over the period from 1938 to the present. Figure 2 displays one measure indicating the generosity of UI benefits and one measure indicating the tax burden imposed on workers' wages.

The generosity gauge is the ratio of average weekly benefits to average weekly wages. It expresses the fraction of the average worker's wages that would be replaced by the average weekly benefit and is, therefore, sometimes called the "replacement ratio."

Senator MOYNIHAN. That is your replacement ratio?

Dr. LEVINE. The replacement ratio, the same as before.

The tax burden gauge is the ratio of taxable wages to total wages paid in the State. It indicates what fraction of wages earned are taxed by the UI system.

The line with the hollow squares in Figure 2 indicates that the generosity of UI benefits has remained fairly constant over the past 50 years, with perhaps the exception of the middle 1980's. The average weekly benefit would replace roughly one-third of the average worker's weekly wages.

The line with the filled-in squares, however, shows that the fraction of wages paid that are taxed by the UI system has fallen dramatically. While fully 90 percent of all wages paid were taxable in 1938 in New York State, only around one-quarter are currently taxable.

Senator MOYNIHAN. Yes.

Dr. LEVINE. The decline in this ratio is a result of the increase in total wages paid at roughly the rate of inflation, while taxable wage growth is restricted due to a constant wage base. The discrete increases in this ratio in 1972, 1978, and 1983 correspond exactly with the increases in the taxable wage base.

The evidence presented in this figure suggests that, while the generosity of the UI system has been largely constant over time, the tax burden falls almost unabatedly. Therefore, the simple accounting relationships previously discussed clearly indicate that the New York State UI system is destined to run out of funds sooner or later.

Senator MOYNIHAN. Yes. A very powerful point.

Dr. LEVINE. Another concern I have with a taxable wage base which is constant in current dollars is that it leads to an increasingly regressive tax over time. Any tax that is only imposed on a certain amount of income is regressive in that the percentage of a person's income that is paid in taxes decreases as income rises. The Social Security tax shares this feature.

Since the taxable wage base is constant, however, in the UI system, the tax becomes more and more regressive over time. The reason for this is that as the taxable wage base is eroded by inflation, only poorer people remain taxed on all or most of their income.

Senator MOYNIHAN. Now, you would be thinking as an economist and say that an employer will save the FUTA tax as a wage cost, and most of it will be reflected in lower wages.

Dr. LEVINE. Exactly. That is two sentences down; you keep beating me to my punch lines. [Laughter.]

Similarly, the taxable wage base becomes only a very small part of a high wage worker's earnings as wages grow with inflation. Even though UI taxes are levied on firms, to the extent that the tax burden is shifted onto workers in the form of lower wages, the burden will be greater for low wage workers.

Again, historical characteristics of the New York State UI system will illustrate this point.

In Table 1, I consider three hypothetical workers. One is a low wage earner, making \$5,000 per year in current dollars. One is a moderate wage earner, making \$25,000 per year in current dollars. And the third is a high wage earner, making \$75,000 per year in current dollars.

I use the Consumer Price Index to convert these dollar amounts to comparable levels of purchasing power in 1940, 1950, 1960, 1970, 1980, and 1990.

Senator MOYNIHAN. Very impressive.

Dr. LEVINE. Using historical tax rates and the taxable wage bases, I estimate the percentage of each worker's income paid to UI taxes in each of these years.

The results presented in Table 1 demonstrate quite clearly the increasing regressivity of the UI tax. In 1940, the low wage earner would have paid 2.7 percent of his income as UI taxes, roughly three times as much as the higher wage earner, who would have paid .95 percent.

The low and moderate wage earners would have paid the same percentage in 1940.

Since the percentage of income paid is lower for the high wage worker, this system would be called regressive. However, the system is more regressive by 1970. In that year, the low wage earner would about eight times the percentage of income relative to the high wage earner and three times that of the moderate wage earner.

Senator MOYNIHAN. Yes.

Dr. LEVINE. By 1990, the system has become even more regressive still. Now, the low wage earner is paying over 10 times the percentage of income as the high wage earner and about four times that of the moderate wage earner.

It may be argued, however, that the regressivity built into the system is appropriate because the UI system is indeed an "insurance" system. Since a maximum benefit level exists, high wage workers receive benefits which represent a lower proportion of the regular wages and should, therefore, also pay taxes representing a lower percentage of their wages.

While there may be some validity to this argument, it is not consistent with a UI tax which has become increasingly regressive over time.

Senator MOYNIHAN. Yes. If you had maintained this

Dr. LEVINE. Exactly. Since the maximum benefit tends to increase roughly at the rate of inflation, taxes should increase accordingly.

Senator MOYNIHAN. The maximum benefit is set by the State legislature.

Dr. LEVINE. Yes. In many States, the maximum benefit is physically indexed; in New York State, it is increasingly on an ad hoc basis but has tended to increase at the same rate as inflation. I think about half to two-thirds of the States index benefits.

A related argument based on the insurance aspect of the system also may be made. Some have argued that high wage firms should pay less in UI taxes because these firms tend to lay off fewer workers. Hence, employees of these firms are less likely to receive benefits.

Without refuting this argument, the current institutional environment is well suited to handle this problem in the absence of a low taxable wage base. The UI system is experience rated in the sense that a firm's tax rate is dependent upon its own layoff experience; firms who lay off more workers are charged a higher tax rate.

If this system is not considered adequate, then perhaps some adjustments need to be made to the system of experience rating, not to the taxable wage base. Maintaining a low taxable wage base is a very inefficient way to solve this problem since some low wage firms may have very low turnover and should not be penalized.

While I believe that the problems created by a low taxable wage base fixed in current dollars are severe, I also believe that a solution would be quite straight-forward. I will propose, in turn, three potential solutions and sketch the advantages and disadvantages of each one.

Each requires an increase in the taxable wage base. Since the Federal Government sets a minimum base which must be met by each State, Federal legislation could provide the means for change.

The first option is to leave the minimum taxable wage base at \$7,000 but would index the base to keep pace with inflation. About one-third of the States currently have indexation provisions which increase the wage base at the same rate as average wages in the State.

Such an approach would leave the UI system in much the same condition as it is today, with the same problems of financial instability and regressivity. However, it will halt the trend towards an increasingly unstable and regressive financing system.

The second option would be to pass legislation similar to that in 1972 regarding the taxable wage base in the Social Security

System. In that legislation, the wage base was increased in real terms over a few year period, and then the wage base was automatically adjusted to increase at the same rate that average annual wages increased.

Because of an additional shortfall in reserves in subsequent years, the same sort of legislation was passed in 1977, where the real taxable wage base was increased over a 3-year period and then resumed indexation to the rate of increase in average annual wages.

While the amount of initial real increase in the UI taxable wage base is a matter of negotiation, such a policy would help stabilize the financial condition of the UI system and would reduce some of the regressivity built into it.

The option that I prefer, however, would be to pass legislation similar to the Tax Reform Act of 1986. The taxable wage base could be abolished so that all income would be taxable by the UI system. States could then lower tax rates charged to firms. If taxes were lowered enough, such legislation could be made revenue-neutral in that tax revenues collected under the new system would equal what they would have been under the old system.

However, some States may find the need to lower tax rates by a slightly smaller amount, thereby increasing revenues and further protecting against trust fund insolvency. This option would strengthen the financial condition of the UI system and eliminate the regressivity built into the UI tax.

Mr. Chairman, that concludes my formal remarks. I would be happy to answer any questions you may have.

Senator MOYNIHAN. You have raised striking materials here. I see your point about getting down to that 2 percent ratio, which is just going to get you over a period here.

Dr. LEVINE. Right.

Senator MOYNIHAN. I don't know. I have been 15 years on the Finance Committee, and we have never had a Secretary of Labor come in and talk to us about this subject.

Dr. LEVINE. I think it is an issue that has been largely overlooked, and I am not 100 percent sure why. It is a very simple argument.

Senator MOYNIHAN. We had the case with the OSDI in 1972 and 1977. You know, we mislegislated; is that right?

Dr. LEVINE. Right.

Senator MOYNIHAN. In 1972, it was just wrong. I mean, we were about to go insolvent forever. We were going to get a replacement rate of 150 percent; and so, we had that hole in 1977. I was on that conference committee.

We also created the Notch Program, which has been a joy to the political world.

Dr. LEVINE. Yes. It was a full employment program for economists to study. [Laughter.]

Senator MOYNIHAN. All these things are a little bit out of whack. We went to a partially funded system in 1977 for the old age survivors and disability; and we now have the most powerful revenue stream in the history of public finance. And nobody said anything about it at the time.

Now, I signed the conference committee report, and I didn't know it. I suppose Bob Ball knew it; but if he did, he didn't tell me about it. And then, we went through a thoroughly erratic period; there was a little period when prices moved ahead of wages; it had never happened before, and suddenly the trust funds were in trouble.

We didn't do anything in the 1983 legislation, excepting some bookkeeping measures to fatten up the trust funds, which were going to start fattening up at an enormous rate at any moment; and you could feel it. But it stopped when we talked about the world's largest bankruptcy, and everybody believed it.

I mean, there was a large reservoir of distrust in the system. Now, we shall shortly have a trust fund surplus of \$200 billion a year, which is an outrage, because it is being used as general revenue. And then, this is just the opposite.

Dr. LEVINE. And this could actually be the bankruptcy problem that was forecast for Social Security 20 years ago.

Senator MOYNIHAN. Yes. But please don't use that word "bankruptcy." [Laughter.]

At most, you know, your benefits go out a day late. Here is a system of 51 years that has never been a day late or a dollar short; and yet, people still yell bankruptcy.

This is doable. We ought to address the question of indexing or, indeed, going to some formulation such as your third option—bring in everything.

I don't know why a lot of people aren't more energetic. I am glad to see that the Business Council and the city Chamber of Commerce and Industry are here, and they have been listening to you very carefully. I note they do not turn their backs when a young professor of economics addresses members of the Finance Committee.

Dr. Levine, thank you very much. Let's stay in touch. This is something to be considered. I don't know why a Secretary of Labor is not down explaining this to us; well, I guess I do know. Any change suggested, you might be raising taxes.

Dr. LEVINE. Right. That is why my third option has the revenue neutrality.

Senator MOYNIHAN. A revenue neutral. But when you said the 1986 Tax Reform Act, you meant our general principle being revenue neutral?

Dr. LEVINE. Right.

Senator MOYNIHAN. Yes, which can be worked out. Not that we wouldn't have lied, but we tried to call it that; and, mind you, the deficit has only doubled since. [Laughter.]

Dr. Levine, we thank you very much, and enjoy your tour in Massachusetts.

Dr. LEVINE. Thank you.

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

Senator MOYNIHAN. And now, our final panel, persons who are very interested in and concerned about this subject. We have Mr. Keith Brooks, who is the coordinator of the New York Unemployed Committee; Mr. Steve Harvey, who is executive director of the Long Island Progressive Coalition; and Mr. Nelson Valentin.



All three of you are welcome. We have one extra person. We welcome you, Mr. Harvey, Mr. Brooks, and Mr. Valentin; and you, sir, are?

Mr. PROPER. My name is George Proper.

Senator MOYNIHAN. George Proper? How do you do, sir. We welcome you.

Mr. PROPER. Thank you.

Senator MOYNIHAN. And we will start out with Mr. Brooks.

Mr. BROOKS. If it is all the same to you, we would like Mr. Valentin to go first.

Senator MOYNIHAN. All right. Mr. Valentin will go first.

**STATEMENT OF NELSON VALENTIN, MEMBER, STEERING COMMITTEE OF NEW YORK UNEMPLOYED COMMITTEE, FORMER SALESMAN, PRESENTLY UNEMPLOYED**

Mr. VALENTIN. I just want to thank you for this opportunity. My name is Nelson Valentin, and I have been out of work since October 6, 1990. I live in Brooklyn, New York. I was laid off after working 8 years at the Thom McAnn Shoe Company.

I came here 10 years ago from Puerto Rico looking for work because there were no jobs in my country. I have college credits in business administration, and I have helped raise a family along with my wife. We have three daughters.

I have previously testified on the need for an extension of unemployment benefits before the House Ways and Means Committee's Human Resources Subcommittee in March, when I was down to my last three unemployment checks.

I want to tell you what my life has been like over the last year, not only because I have suffered, but because what happened to me is happening to millions of other working people trying to provide a decent life for themselves and their families.

I used up all 26 weeks of my unemployment benefits. I collected my last check on April 6. I have tried to find a stable job, but all I can find are jobs where I work for 1 week and then get laid off the next week. In the meantime, my ability to pay my bills continues to go downhill.

The hard fact that this Government refuses to acknowledge is that there is no work, and more people are losing their jobs every day. When jobs are available, dozens and even hundreds of people apply. I know; I am out there looking.

As meager as my unemployment checks were, they at least allowed us to survive during this period. I do not know how we are going to pay our bills unless I find stable employment or we get some help.

I would rather be working than testifying before you today, and I would rather be working than having to fight for unemployment benefits. But as far as I am concerned, there are benefits due me, not charity. I know that my employer had to pay an unemployment insurance tax on my salary. And now, when I need that insurance, I am told that there is only 26 weeks of benefits available to me.

I know that in the past, the tax provided for as much as 65 weeks of unemployment benefits. I also know that there is almost

\$8 billion in a special fund set aside for 13 more weeks of unemployment benefits.

At first, I did not fully understand why these benefits were cut, or this money not used. I think I do now. It is clear to me that without these benefits, people like myself are forced to take whatever job comes along out of sheer desperation. In my previous job, I was making over \$455.00 a week. Over the last 2 months, I have worked for half of my previous salary—about \$225.00.

It is clear who is benefiting, and it is not us, the working people.

The Bush administration says that things are not bad enough to justify giving more weeks of benefits. I have a question to ask of President Bush: How can you justify denying us our benefits when you allocate billions for the savings and loan industry and billions for war in the Gulf? How can you deny us this protection when that part of the unemployment insurance tax intended for extended unemployment benefits has accumulated \$8 billion?

Mr. Bush, the money is there. Why can't it be used?

Senator Moynihan, with all due respect, I was present when you met with over 40 of us on April 23 in Washington, DC. I don't understand why it took over 2 months before you could find time to set up this hearing. During this time, over 500,000 unemployed people used up their last unemployment check.

I also don't understand why this hearing makes believe there is a need for more investigation into the problem. While we appreciate the opportunity to address this hearing, we don't need more investigations. We need action to extend unemployment benefits.

The question is: What are you going to do about it, Senator Moynihan?

As a member of the steering committee of the New York Unemployed Committee, and on behalf of the more than 1 million people who will exhaust all their unemployment benefits over the next few months, we urge you to act quickly. Thank you very much.

Senator MOYNIHAN. We thank you, Mr. Valentin.

[Applause.]

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

Senator MOYNIHAN. And next, as we go down our list, is Mr. Brooks.

#### STATEMENT OF KEITH BROOKS, COORDINATOR OF THE NEW YORK UNEMPLOYED COMMITTEE

Mr. BROOKS. My name is Keith Brooks. Along with Manny Ness, who is here, I am a coordinator of the New York Unemployed Committee, which is an organization that we started in November 1990. And we would like to take this opportunity to just make clear that we are appreciative and thank the Senator for holding this hearing in New York, which we requested, as we have discussed before, when you met with about 40 of us in Washington on April 23rd.

That was a day on which we were denied access to the hearing, or to the testimony; and this hearing today is an improvement.

Along the lines of the point that Mr. Valentin made, we very clearly saw this not as a hearing to determine if there is a problem at this late date; but rather, we had asked for the opportunity for

you to use your position to hold, in a sense, a town hall meeting, where we could draw public attention to the issue and rally support for the need to extend unemployment benefits.

The fact of the matter is that it is undeniable, except to the Chamber of Commerce and the Bush administration, that there is a problem; and there has been numerous testimony. A lot of the testimony on Downey's bill, I would recommend to you to look at. The testimony here today is very good; but I really think that we are beyond the point of asking the question whether or not there is a problem.

I mean, there clearly is; I think that you know that. 2.6 million people have exhausted all unemployment benefits over the last 12 months. And to get right to it, the real question is: What is going to be done about it?

We felt that we had let you off the hook, so to speak, when you met with us in Washington by not asking you why you were not supporting the Downey bill. At the time, there was no other legislation.

I understand there is now a bill that was introduced by Senator Riegle that you are a co-sponsor of; and from what I have seen of it, it is disappointingly weak. I am not sure if you are familiar with it; I guess I have to take that for granted.

But for instance, the provision in that bills that says that States with unemployment rates between 6 and 7 percent, that the extension granted by that bill—7 weeks—for those States would not go into effect unless the national unemployment rate was 7 percent, which would for instance exclude a State like New Jersey, which has an unemployment rate, I think, of about 6.5 or maybe 6.8 percent.

Jersey City has an unemployment rate of 10 percent. Making that kick-in contingent upon the national unemployment rate is unfair, and it is unconscionable, amongst other things.

So, there are some pretty big weaknesses to that bill. Certainly, for unemployed people 7 weeks is better than nothing, better than no weeks; and 13 weeks is better than 7 weeks and the rest of it.

I think that the way in which we would like to slice this pie up a little bit is to say there is clearly a need for immediate, urgent legislation, on the one hand, that could be done as quickly and as expediently as possible; and on the other hand, there is a clear need for thorough-going reform of the unemployment insurance system.

Senator MOYNIHAN. I have been hearing both of those things today.

Mr. BROOKS. Right.

Senator MOYNIHAN. I don't know how it degraded in the way it has done. New York is supposed to be a labor State; it has the largest proportion of its work force in trade unions.

I was assistant to Governor Harriman for 4 years in the 1950's, and Isadore Lubin was our industrial commissioner. Lubin would not have put up with this; I don't know if anybody is old enough to remember Isadore Lubin. I remember the Roosevelt administration; I was in the Labor Department in the 1930's, when we developed all these programs. It is a mystery to me.

I don't know why we have let the system degrade as much as we have.

Mr. BROOKS. Yes.

Senator MOYNIHAN. It is very clear to me that we have.

Mr. BROOKS. I mean, just on that point, we believe that we are beyond the stage, with all due respect, of the hand-wringing, the head-nodding, and the lip-flapping—not necessarily from you primarily—but the total lack of leadership on the part of the Democratic party on the issue.

In other words, on the one hand, we might be here preaching to the choir because I think it is clear that you are sympathetic to the cause, which is why I would like—in a sense—to up the ante with you, knowing that you are not an opponent of the issue.

But our main purpose in coming here today was not to repeat the testimony that people have heard and the facts and figures, which are readily available; but in a sense, to directly issue a challenge to you to use your position to put the issue in the public eye.

You have fought a good fight on the Social Security issue; you made that into a national issue. You used the opinion pages of the New York Times, of Newsday, and numerous other resources. And even though you lost the fight, you basically put the issue before the public.

We are here to ask you, and to challenge you, to do the same on the unemployment issue. In other words, it is enough lip service. You know, Senator Sarbanes made some very sharp comments about the “unemployment insurance is like a library with all the books on the shelf.”

Secretary of State Lynn Martin thinks that it is working because all the books are on the shelf. A library works when people are using it.

But I think we have to go beyond the—

Senator MOYNIHAN. Was that a hearing in the Joint Economic Committee?

Mr. BROOKS. Yes. Right. I think we have to go beyond the statements to ask you, as our Senator in New York and somebody who occupies a national platform: What are you going to do about it?

We are asking you. We think that the most expedient way for this issue to move forward is for you to take the lead, along with whoever else—the Democratic party; I mean, that might be asking too much—to demand and put in the public eye the demand that President Bush do the same thing on the unemployment insurance issue that he did on the issue of bailing out the savings and loans, that he did with aid to Kuwait about 6 weeks ago, when \$450 million in emergency aid was appropriated, and which he did to wage the war in the Gulf, which is to declare this an emergency item.

Unemployed people are in a state of emergency, and this needs to be freed from the budgetary restraints. I would like to say that there are number of unions, in terms of our original proposal of how we would have liked to have seen this meeting be conducted.

There are a number of unions, for instance, like the lithographers, like DC-17 or DC-7, and numerous others, who would have liked to have the opportunity to have testified here, to have rallied their membership.

But the format was not what was conducive to that happening here.

There is a tremendous amount of public anger that is growing. There is a reservoir that can be tapped; and so, I will go back to the same point, which is to ask you directly: Will you do it? Will you take on this issue and, in a sense, put this forward and lead the fight to demand that President Bush declare unemployment insurance an emergency item and recognize the state of emergency that the unemployed are in?

Thank you.

[Applause.]

Senator MOYNIHAN. I certainly heard what you said, Mr. Brooks. My concern is to try to see if we can't get something moving in the Finance Committee; but there is not going to be any response from the administration. They have declared the recession to be over.

And it is the first time that we will have gone through a recession since 1972, where we haven't had any countercyclical measures of any kind. That budget agreement of last October has just frozen everything.

And that is the reality. I don't quite understand this; I can follow a lot of it, but I don't understand this. For 35 years, I have been in this, and there are patterns here I don't follow.

Maybe I will understand more as we get into this more; but my big job is to get the Finance Committee to move to mark up legislation of any kind. And I don't know if that is going to happen.

Mr. BROOKS. May I ask you something?

Senator MOYNIHAN. Sure.

Mr. BROOKS. What do you have to lose—you individually and the Democrats collectively—in putting together a demand, in going public with a press conference or whatever, the anti-recession task force, and put President Bush on the spot?

Even if it gets defeated, the point is that the President is on the spot publicly as to his policy toward the unemployed.

Senator MOYNIHAN. A fair point, Mr. Brooks. Putting the President on the spot is not as easily done as you might wish it to be from time to time; but we could find out. Nothing has happened yet.

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

Senator MOYNIHAN. Mr. Harvey?

#### STATEMENT OF STEVEN A. HARVEY, EXECUTIVE DIRECTOR, LONG ISLAND PROGRESSIVE COALITION

Mr. HARVEY. Senator, I am going to echo a lot of what Mr. Brooks has said. The Long Island Progressive Coalition appreciates the opportunity to testify before you this morning. We appreciate your concern and attention to the issue.

Frankly, I see more sympathy here than I would have expected based on our frustration over the follow-up at the meeting of April 23rd and the subsequent discussions we have had about setting up this hearing with your staff. And we are encouraged by that.

I have heard you say this morning that the Labor Department is brain-dead, and the bills that are in Congress right now are unfortunately weak because, in this political climate, we can't do any better than that.

And I just heard you say now that you don't understand the administration's position.

Senator MOYNIHAN. No, I never said anything about that; I never characterized the bills one way or the other, but I said the other things.

Mr. HARVEY. I understood you to say that there should be more reform than in fact these bills suggest, that it was unlikely that we could even get these passed in the current climate.

Senator MOYNIHAN. I may have said that, yes.

Mr. HARVEY. In any case, as Keith said, none of the statistics here today are new or any more convincing than they have been in the past. It is encouraging to me to hear a larger group of people talking about those statistics and talking about the problem; but again, I don't think more hearings or more studies will help.

The administration's position is that they are not doing anything because they don't think they have to do anything; unless we put enough pressure on them publicly and unless people like you take the leadership in doing that, they won't do anything because we are not going to make them think they have to.

What we need is not more experts' testifying at hearings like this, but really the people who are the most expert, the unemployed themselves. You said earlier this morning that there wasn't enough room in the hearing room in Washington on April 23rd; and that is why this hearing was convened.

But when we talked to your staff about getting lots of unemployed people down here to testify, they said that wasn't the format; and that wasn't going to be possible. We also have unions that would have liked to have been here; in fact, one even called your office and asked to be put on the speakers' list and was told there wasn't room.

So, this hearing seems to me and to us to be inadequate to move for extended benefits or reform of the system that we all seem to agree is necessary.

What we would like to ask you to do today, in brief, is to help us put pressure on the administration by holding more hearings which are an open forum for unemployed people to testify, outside of New York City as well as here, like on Long Island, like in Albany, like in Rochester, like in other places where there are lots of unemployed, and help make the case publicly that the administration's position is unacceptable and that we have to push for unemployment insurance reform even if that is not what the Bush administration wants to see.

Now, on the principle that unemployed people really are the experts on this issue and should speak directly to it, I would like yield the rest of my time to George Proper, who is unemployed and a member of the Progressive Coalition, to speak about his situation and his perspective on it.

Thank you for your attention.

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

Senator MOYNIHAN. Mr. Proper, good morning, or good afternoon.

**STATEMENT OF GEORGE PROPER, MEMBER, LONG ISLAND  
PROGRESSIVE COALITION, PRESENTLY UNEMPLOYED**

Mr. PROPER. Good afternoon. I wish to thank the Senator for the opportunity to speak in reference to the crisis facing unemployed persons in the recession economy of 1991. I would like to have seen a greater openness on the part of this committee to hear from the unemployed in larger numbers than are being allowed to testify today.

I realize that time and space are a problem, but allowing only two of the unemployed in this State to come forth should have been reviewed and considered insufficient to obtain a true picture of the pain being inflicted on many dedicated and diligent workers of our country.

I will try to convey to this committee just how difficult it has been to search for employment by many of us. One of my friends in the coalition has been out of work approximately 10 months; and having received her final check, she is utilizing her small savings, which will run out shortly, to pay her bills.

She has continued to seek employment as a bookkeeper and has found that when she has been able to acquire an interview, she has been informed that 70 applicants have applied for the one position.

Just yesterday in Newsday, the number of unemployed in April 1990 in Suffolk County was listed as 26,600, while April 1991 was 42,600 in just Suffolk County. of which unfortunately I am a member.

Senator MOYNIHAN. And you are from Suffolk?

Mr. PROPER. I am from Suffolk County.

That is an increase of 60.2 percent in the number of unemployed in our county alone.

This year alone in New York State, from January through March, 58,500 have been removed from the rolls of the unemployed because they have utilized all of their 26 weeks and now must face unemployment without any benefits at all. Last year, the total for the year was 200,000. I am sure we are going to go over that soon.

As to my own story, it begins further back in time. In 1984, I was employed as a Human Resources Director for an airline catering firm, earning \$38,000 per year. The company was sold to another conglomerate, which found my services unnecessary. At that time, I made over 400 attempts to locate a position as a human resources manager to no avail.

After being out of work for 8 months, I was declared a dislocated person and was offered the opportunity to be retrained in the computer typesetting field.

Starting over, earning \$13,000 a year, I attempted to re-begin my life. I continued to apply for positions in my field of human resources director; however, wherever I went, the answer was the same: overqualified.

At that time, I was 50 years of age. Now, having worked for 6 years as a typesetter, I have been terminated from two jobs. In 1988, a reduction in force, and in 1991, elimination of the whole department to permit the contracting out of functions that four employees had performed. Last year, I earned \$30,000 per year.

Since January 1991, I have made over 600 attempts to locate work in human resources or typesetting. I have even sought a position in the Diocese of Rockville Center, since I am an ordained deacon in the Catholic Church; and in December 1990, I obtained a master's degree in theology. I was turned down because they had no position.

I have with me 50 responses in which my credentials and experienced are lauded and praised by firms who politely tell me that they had to choose someone more suitable to their needs—yes, not 57 years of age as I am.

I have contacted every employment agency on Long Island. I have contacted every major firm in the metropolitan area. I have contacted every typesetting and printing firm. Nothing.

I went back to Suffolk County to investigate another field of training. I was advised that since I had 2 months of free-lance work, I was not eligible to be retrained.

So you see, my needs as a human being are slowly ignored. 26 weeks for those of us who are in my age category is totally insufficient to help me face the world in which we reside. I only have 8 weeks left, and that is because I found those 2 months free-lancing work.

However, I will be very shortly charging that firm with age discrimination.

But I speak not only for my age category; I speak for every age group. Another friend of mine is 21; he has experience in warehousing and has been looking for a job for over 6 months. Whenever he seeks a job in that category, he is told his experience is too light.

As to the passage of the Downey bill, H.R. 1367, the politics that has been played with this bill has been outrageous. The arguing over the percentages and the financing of the fund is the issue.

What about the lives of the thousands of unemployed in this country who are facing destitution? For us, this is just as serious as the Great Depression was to our grandparents.

With \$9.2 billion which this year will be in the trust fund for extended benefits, there is absolutely no reason to deny extended benefits to anyone. Other countries give extended benefits more than 26 weeks; some of them give 52 weeks a year.

Senator MOYNIHAN. That is right.

Mr. PROPER. I have worked for 37 years and also dedicated my life to aiding those who are of my faith, which I thank God I have been able to maintain me in this time of challenge and denial; but I am rapidly approaching bankruptcy and loss of everything, including my home.

I am not saying that extended benefits will guarantee this not occurring, but it will help in giving me and thousands of others additional time to find the job which each of us needs to live in the world.

To summarize my statement, we would like you to consider the following.

Either pass the Downey bill or one similar to it; we ask the Democratic party to publicly proclaim its support for the President to declare an emergency to release the Extended Benefits Trust Fund immediately. We are in trouble.



We would like to see this committee consider holding hearings in other parts of the States, such as Long Island, to permit other unemployed people to convey their stories;

Greater support for the unemployed should also include improved retraining. Why am I being denied consideration even though I am willing to be retrained, even though I had 2 months work?

How about health insurance? I haven't had health insurance for 6 years. If it weren't for my wife, I would not be able to insure myself. I would like considered tougher control of sexual and age discrimination because, believe me, it is rampant.

Once again, I would like to extend my own appreciation for the opportunity to address this committee and you, Senator.

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

Senator MOYNIHAN. We appreciate your coming and Mr. Valentin also. The things you have said and the questions and concerns you have raised are too serious to be ignored. We could say "That is just fine; we will take care of that; don't you worry." I am not sure we will. There is something deeply wrong with our arrangement.

If there was a public demand to do what you and I and all of us are talking about, the administration would be for it. Something is missing.

I mean, in the past, it was thought to be the right thing to do. It didn't matter whether it was the President or the Democrats or the Republicans who did it, and now don't. Our Congress would have reacted 20 years ago in a way it hasn't reacted.

I have been absorbed with other matters a little bit, not exclusively, but I have had legislation on the floor, the Surface Transportation Act; and we finally got it through last Wednesday.

So, this probably is next; and you have a Senator who won't promise you anything except that I am very much concerned about all I heard this morning. I don't like it, and I don't understand it.

Now, you two fellows, don't you give up. You are good men. You know, these things happen. You lose elections; you lose jobs; you lose friends, loved ones. Life goes on.

You have a question about 2 months employment precluding you from retraining. Will you get in touch with our office, right over there?

Mr. PROPER. Yes, sir.

Senator MOYNIHAN. I mean, to hell with that. I pretty much wrote the Manpower Development Training Act in 1962 for President Kennedy, and that is not what we had in mind.

That is very impressive—going from human resources director to typesetting; I couldn't do it at my age, but then you are younger than me. Think about it that way.

Mr. Valentin, I used to get my shoes from Thom McAnn, 55 years ago. Once a year, for going to school, you would get a new pair of Thom McAnn shoes. And I remember them fondly to this day.

Thank you, Mr. Brooks, and thank you, Mr. Harvey.

Mr. BROOKS. Could we make just one response?

Senator MOYNIHAN. Sure.

Mr. BROOKS. You keep saying that there is something missing—I guess either a lack of urgency or——

Senator MOYNIHAN. Yes.

Mr. BROOKS. The lack of urgency is not on the part of the unemployed. The lack of urgency is clearly reflected in the lack of a response, not just from Bush, whom we might take for granted, but in terms of the Democratic Party.

You are in a position to help create public opinion on the issue and that is what we are here to say to you today: Use your position to do that. And we will do everything possible to work with you in doing that; and we think that you can do it.

Senator MOYNIHAN. Fair enough. We will find out. Thank you very much. We thank our court reporter for being so diligent. We thank our audience and all the remarkable infrastructure that the new chief brings to these matters.

We thank Senator Offner, and we are adjourned.

[Whereupon, at 12:46 p.m., the hearing was adjourned.]

# APPENDIX

## ADDITIONAL MATERIAL SUBMITTED

### PREPARED STATEMENT OF KEITH BROOKS

My name is Keith Brooks and along with Manny Ness I am a coordinator of the New York Unemployed Committee, which is a unemployment advocacy organization we started in November 1990. We have also co-authored articles on the crisis of the unemployment insurance system (UIS) which have appeared in the Nation, the Baltimore Sun, Philadelphia Inquirer, the Dallas Observer, and elsewhere.

We would like to take this opportunity to express our thanks to the Senator for holding this hearing in New York, which we requested when you met with over 40 of us in Washington DC on April 23. On that day, we brought a busload of New Yorkers to a Senate Finance Committee hearing on unemployment only to be denied the right to testify. While today's hearing is an improvement, this should have been a much more open forum for the unemployed and for labor unions to have addressed this issue.

It is now almost 12 months since the recession officially began in July, 1990. And yet the Senate is first holding hearings on whether there is a problem with a UIS that is providing fewer weeks of unemployment benefits to fewer people at a lower rate of their previous pay than any time in over 30 years. Congressman Tom Downey from Long Island has known there was a problem for the last three years, during which time he has introduced legislation to extend benefits and reform the UIS. The 2.6 million people who used up all their benefits over the last twelve months know there is a problem. How come the U.S. Senate still does not know there is a problem? We do not believe there is a need for more investigations and more hearings to determine if there is a problem. The issue is what to do about the problem.

Legislation is needed *now* to extend the maximum number of weeks of benefits and make other reforms to the unemployment insurance system. Millions more will exhaust their benefits in the coming months unless benefits are extended. We support the AFL-CIO position to restore 65 weeks of unemployment benefits available from 1975 to 1977. The United States provides fewer weeks of benefits, at a lower percentage of former pay, than almost any other we stern industrialized country.

George Bush is determined to be the first president to not extend benefits in a recession. The Democrats seem determined to let him get away with it. We challenge the Democrats to do more than give lip service to the need for extending benefits. Talk is cheap. Actions speak louder than words.

Why are the Democrats so quick to concede the need to raise taxes to pay for extending benefits, instead of demanding the use of \$8 billion already collected through a tax on employers, sitting almost unused in an account intended for additional weeks of benefits. How many people lost their home last year or were evicted because they had neither a job nor source of income? How many put off medical care for themselves or their families? Just the interest alone on all the funds in the Federal Unemployment Insurance Fund—some \$3 billion last year—is enough to fund extended benefits.

We believe that there is a need for *both* immediate emergency legislation for more weeks of unemployment benefits with "reachback" for all who have exhausted their benefits *and* a thoroughgoing reform of the entire UIS. But the bill introduced by Senator Riegle and which you have co-sponsored is barely adequate, even as a stop gap measure. The provision that extends unemployment benefits by a measly 7 weeks in states with unemployment rates between 6 and 7 percent does not even go into effect unless the national unemployment rate reaches 7 percent. This provision

would exclude states like New Jersey which with cities like Jersey City with unemployment rates above 10 percent, as well as Ohio, North Carolina, and other major states. This is unconscionable and unfair.

When someone works all their life and loses their job through no fault of their own, there is a need for other protections such as medical coverage. During the early 80's a number of states passed mortgage relief laws, moratoriums on utility turnoffs and other measures. We call for an Unemployed Bill of Rights, that would provide protections against people losing their homes, against gas and electric turnoffs, losing possessions as well as job retraining.

This is now the 4th recession in just 15 years. The fundamental issue is jobs—decent paying, secure jobs. New approaches toward job security have to be explored, including the shorter work week and a more active government role in providing employment. The myth that people prefer unemployment is belied every day at the unemployment office, where people desperately go out seeking work that is not there. We think it is time to revive the notion that a job is a basic human right, along with access to health care, food and shelter.

But without jobs, people need a source of income. If the President can find billions of dollars to bail out the Savings and Loan and finance a war in the Gulf, the issue is clearly priorities and not just finances.

We are here today primarily to issue a challenge to you Senator Moynihan. The quickest way to gain access to the money in the unemployment trust fund would be for President Bush to declare unemployment an emergency item, freeing it from budgetary restraints imposed on government spending. The fact is that millions of unemployed people are in a state of emergency, without a job or source of income. We challenge you, Senator Moynihan to step forward and lead the fight to demand that the President declare this an emergency item and extend benefits immediately. Will you do it?

---

#### PREPARED STATEMENT OF CLAYOLA BROWN

My name is Clayola Brown. I am a Vice President of the Amalgamated Clothing and Textile Workers Union, and the Manager of the Amalgamated Service and Allied Industries Joint Board of our union.

Our union represents thousands of women and men in New York. We make clothes and the textiles that go into clothes. We work in the giant commercial laundries and small tailor shops of this state. And we are hurting.

I know we are pressed for time, and I am not a professional economist. But I know a recession when I see one. I have to don't look at the BLS figures, or at Economic indicators. I look at our union halls.

They are filled with unemployed members who want jobs. Make no mistake about it, we are in a recession. Our members are not working. We are laid off, or working part time, short weeks, or every other week. There are not enough jobs out there. Companies are closing.

This is a real recession. We know, we have been here before, many times over the past 40 years. And it does not look like it is any way near over.

Let me share with you a question that all union officials are getting every week these days. "What do I do when my unemployment benefits run out?" This was a new question for most of us.

But I said that this is not the first recession. So what has happened? What has changed?

The Unemployment Insurance System has changed. It has gotten worse. During most of the recent recessions, our members could collect benefits for 39, or 52, or 65 weeks. By then they would find a job. Not now. Now it is 26 weeks of benefits. That's why they are coming to us with no jobs and no money coming in.

Distinguished Senators, remember that question. I don't have an answer for the operator at Dino Clothing, or the worker at Best Metropolitan Laundry, or the presser at Manhattan Coats. Maybe you should visit them and tell them why their benefits have run out so soon.

Our members do not want charity or welfare. We are immigrants and minorities. We are mostly women, and many are single mothers. We are proud, hard working people.

We want jobs, and if there are no jobs, we want the unemployment insurance benefits we deserve.

We get asked other questions a lot these days. "Why was my claim turned down? Where is my check?" The Unemployment Insurance System is like a battlefield.

More companies are challenging claims, and there is more red tape. It seems to us to be very unfair.

Our union is glad to see some attention on unemployment. This is a chance to fix up the unemployment system before more of our members and other people have to suffer.

We have some ideas that we would like to offer to this Committee.

First, 26 weeks of unemployment is not enough. How can we justify only 26 weeks of benefits when there is \$8 billion sitting in the UI Trust Fund? What are you waiting for? Extend benefits. Not for just 7 or 13 weeks, either. Spend the money you have on hand, now. The high trigger rates are a form of punishment for the people who can least afford it.

How come the US government does not declare unemployment a national emergency? We should demand that Bush do so. How come when the Savings & Loan bankers need an emergency, they get one, but when hard working people lose their jobs, nothing happens?

The Unemployment Insurance System was supposed to put money in the hands of working people to tide them over the rough times. That money would keep the economy going.

It was not supposed to be a stick to beat down private sector wages. It was supposed to be a safety net. 26 weeks of benefits is not enough.

Second, stop treating us like beggars. Stop the red tape, the delays and the hassles. If the UI system is to be humane, it needs money for administration. Any reform has to include providing enough workers to handle all the claims. People who apply for claims have to be treated with dignity. They have earned this by hard work. Remember, Unemployment Insurance is not welfare or charity.

Third, if the function of UI is to maintain income, what sense does it make to tax the benefits.

Unemployment benefits are a smaller percentage of earnings today than they were a generation ago. That is not fair. It is more punishing the unemployed and pushing them to take jobs at minimum wages.

The recession is not over. Look at the headlines. High unemployment is threatening any chance of a recovery. The recession started early in New York, and it looks like it will end late. The New York area lost 100,000 private sector jobs in 1990. The predictions are that this rate will continue for the next two years.

We need help, now. We need programs to keep industrial jobs in New York, and we need decent benefits for the unemployed while we are developing new jobs.

We are looking for leadership from our elected officials. If President Bush says things are fine, the House and Senate better open their eyes and so no, they are not fine. Not in the factories and laundries of New York.

I do not have the time to discuss in detail the merits of the Downey Bill, or of the Riegle Bill. Our union is working with other unions, and with organizations of the unemployed. We will submit detailed responses to these bills. But let me say that what we have heard about the Riegle Bill is not very positive. Under its rules, New Jersey would not qualify for additional benefits. Explain that to our unemployed members in Union City or Paterson. We need bold leadership, not timid supply side economics from Democrats.

Why do the Democrats keep trying to out-Bush Bush. We don't want a little bit kinder and a little bit gentler, but still very bad Unemployment Insurance System. We want one that takes care of the unemployed during hard times. That is what our members are calling for. That is what we will judge our elected officials on.

We will judge Unemployment Insurance reform on these three simple points—Extend Benefits; Treat Us With Dignity; Stop Taxing Benefits.

What would you think about a union that took dues money from members for years and then forgot about them when they lost their jobs? You would think that was a cruel and selfish union, one that does not deserve the name of union.

Then what should we think about a government that takes taxes from these same hard working people for years and now forgets about them when they lose their jobs? That is a cruel and heartless government. You have the chance to change this situation. I urge you to do so.

---

#### PREPARED STATEMENT OF EDWARD J. CLEARY

Senator Moynihan, I welcome this opportunity to speak before this panel. For the record I am Edward J. Cleary President of the New York State AFL-CIO. Our state labor federation represents some 2.3 million union members affiliated to AFL-CIO unions in New York.

May I compliment you Senator, for taking the initiative of calling this hearing? I thank goodness that, in you, working people in New York have a reliable friend in Congress. It is getting harder and harder to find reliable friends in that body. In talking to union leaders in the past few weeks and months, believe me, the atmosphere is not "business as usual." Their mood is grim. I find a level of disgust and anger with the trend of developments in Washington DC that would be hard to match. By comparison, in the first months of the Reagan onslaught of 1981, labor was truly on the defensive but we could count on stiff resistance to his program by labor's friends in Congress. Ten years on, we can't count on much at all, even on issues that we have identified as "do or die" for us.

#### SOME GRIM REALITIES

So, your field hearing comes at a time of great adversity for organized labor in this country. Not only do we face a hostile White House and a deepening recession. We face a remarkable realignment of allegiance by people in Congress we assumed would be with us. This has a direct bearing on the topic of this morning's hearing, unemployment insurance. It hasn't gone unnoticed that, unlike its actions in the recessions of 1975, 1980 and 1982, Congress has so far not acted to extend unemployment benefits beyond the maximum period allowed by individual states.

In the U.S. Congress and in state capitals, public officials who were our friends are ceasing to act like friends. For example, the recent votes in Congress on fast track authority for Pres. Bush's Free Trade Agreement with Mexico were shocking when you look at the pattern of the votes. Despite considerable progress in lining up the New York delegation behind the anti-sab legislation, progress around the country is slow, slower than it should be. These developments pose a terrible threat for private sector unions, especially industrial unions.

Matters are no better for public employees. In statehouse after statehouse, elected officials, who publicly acknowledge that they got their jobs only with labor support, are slashing public services and laying off thousands of public employees.

Finally, the other major sector of our movement, one close to my heart, the building trades, is seeing an unemployment rate soar above 25% in this town. It seems outrageous to me that AFL-CIO President Lane Kirkland's sensible appeal for a broad anti-recession program that would include rebuilding the nation's infrastructure—such as crumbling highways, bridges and other facilities—and building affordable housing for low and moderate income Americans, was greeted with a big yawn on Capitol Hill a few weeks ago. Few seem to take the unemployment of construction workers very seriously at all. And, to cap it all off, there is the health care crisis, an issue that affects all of organized labor and millions of others as well. Despite a desperate need for a national health care program that would provide universal access to health care for all Americans, legislative discussion inches along. National health care should not be making snail's pace progress. It should be striding with Seven League Boots. It is an idea so clearly in the interests of workers and of employers.

It is this depressing scene, Senator, that is fueling labor's determination to find a way to shake up leaders of both major parties. We have rented the Washington Metro on August 31, 1991 which we have declared to be Solidarity Day 2, and we intend to assemble a crowd of union members so big that even official Washington, which seems to be asleep when it come to people's issues, will wake up and take notice.

#### PAIN

Before I get into labor's specific proposals about reforming the unemployment insurance system, I want to talk about the human reality of unemployment. I want to talk about pain. I can't remember a recession in which the economic experts and top policymakers spent more energy in trying to forecast its end, and less energy in adopting policies that would actually bring about its end. The end of this recession is forecast almost daily. Just the other day the New York Times ran an article suggesting that since macaroni and cheese sales—the poor man's food—have leveled off, it means consumers are feeling better and are upgrading their food purchases. So maybe the end of the recession is at hand. Like Mark Twain's death, the demise of this recession has been announced prematurely. Every experienced trade unionist knows that even when production starts upward again, it can be two to three years or more before employment levels regain previous peaks. That means two to three years of pain.

It's easy for those of us who spend our lives discussing legislation and policy to forget the pain behind the statistics. It's easy to lose a sense of urgency. Our sense

of urgency about reforming the U.I. system should be determined not by an estimate of what we can persuade the most sluggish legislator to do, but by the needs of the child in the slums of our cities that is suffering from the joblessness of his or her parents, and who faces a world full of drug addiction, alcoholism, homelessness, physical abuse, parental desertion, and neglect as a result.

It's my opinion that papal encyclicals and pastoral letters are documents often cited but rarely read. I am one of those people who actually reads such documents and I'd like to quote a passage from *Economic Justice for All*, a 1986 pastoral letter by the US Catholic bishops on Catholic social teaching and the U.S. economy. It deals with the human reality of unemployment:

"The severe human costs of high unemployment levels become vividly clear when we examine the impact of joblessness on human lives and human dignity. It is a deep conviction of American culture that work is central to the freedom and well-being of people. The unemployed often come to feel they are worthless and without a productive role in society. We don't need your talent. We don't need your initiative. We don't need you. Unemployment takes a terrible toll on the health and stability of both individuals and families. It gives rise to family quarrels, greater consumption of alcohol, child abuse, spouse abuse, divorce, and higher rates of infant mortality. People who are unemployed often feel that society blames them for being unemployed. Very few people survive long periods of unemployment without some psychological damage even if they have sufficient funds to meet their needs. At the extreme, the strains of job loss may drive individuals to suicide.

"In addition to the terrible waste of individual talent and creativity, unemployment also harms society at large. Jobless people pay little or no taxes, thus lowering the revenues for cities, states, and the federal government. At the same time, rising unemployment requires greater expenditures for unemployment compensation, food stamps, welfare, and other assistance. It is estimated that in 1986, for every one percentage point increase in the rate of unemployment, there will be roughly a \$40 billion increase in the federal deficit. The costs to society are also evident in the rise in crime associated with joblessness. The Federal Bureau of Prisons reports that increases in unemployment have been followed by increases in the prison population. Other studies have shown links between the rate of joblessness and the frequency of homicides, robberies, larcenies, narcotics arrests, and youth crimes.

"Our own experiences with the individuals, families, and communities that suffer the burdens of unemployment compel us to the conviction that as a nation we simply cannot afford to have millions of able-bodied men and women unemployed. We cannot afford the economic costs, the social dislocation, and the enormous human tragedies caused by unemployment. In the end, however, what we can least afford is the assault on human dignity that occurs when millions are left without adequate employment. Therefore, we cannot but conclude that current levels of unemployment are intolerable, and they impose on us a moral obligation to work for policies that will reduce joblessness."

The bishops also point out that the scourge of unemployment is not equally shared. "Blacks, Hispanics, Native Americans, young adults, female heads of households, and those who are inadequately educated are represented disproportionately among the ranks of the unemployed. The unemployment rate among minorities is almost twice as high as the rate among whites." I wish that our nation's top economic policymakers were capable of such moral reasoning.

#### LABOR'S PROPOSALS

I now turn to labor's proposals for reforming unemployment insurance. The system is failing miserably. Born out of the economic chaos of the Depression, the objective of unemployment insurance was two-fold: To cushion workers against the shock of joblessness; and to bolster purchasing power of the unemployed during an economic downturn at a time when total consumer spending would be declining. As such, the program was designed as a "safety net" for both unemployed Americans and the US economy.

Significant improvements in unemployment insurance were achieved up until the mid-1970's. Then the White House, Congress and the state legislatures began to ravage the program and the role of unemployment compensation as a first line of defense against the catastrophe of unemployment was seriously weakened. As a result, today only one out of every three unemployed American workers receives benefits. For 1989 an average 4.4 million of the nation's jobless were without benefits each month. Even for those lucky enough to qualify for benefits, the wage-replacement value is barely a third of average weekly wages.

The majority of jobless workers were not able to collect a dime's worth of unemployment benefits. Many of the uncompensated jobless are victims of federal and

state modifications in the unemployment insurance system made during the Reagan presidency.

Millions of long-term jobless workers have exhausted their benefits without finding a job. Millions of others did not qualify in the first place because of severe limitations imposed by some states. And more than a million discouraged workers are no longer counted as unemployed because they gave up looking for a job.

The United States entered the Bush recession with a weaker benefits system than at anytime since the mid-1940s. In the 38 years from 1946 to 1983, the percentage of jobless workers receiving benefits dipped below 40% only once, in 1946.

The level of protection was about 75% in the 1975 Ford recession, about 50% in 1980 Carter recession, and about 45% during the 1982 Reagan recession.

If the proportion of jobless workers receiving benefits in 1990 had been the same as a decade earlier, at least a half-million more would have been drawing compensation in an average month last year.

Much of the problem stems from a 1981 federal law that Congress adopted under a push from President Reagan. That measure increased unemployment levels a state must reach for workers to receive extended benefits beyond the normal 26 weeks.

Senator, you, I believe, chaired the hearing in Washington where the national AFL-CIO Legislative Department outlined our position. The heart of our position is that the unemployment compensation system needs immediate reform to provide extended benefits, expanded eligibility, and adequate funds for efficient administration of the program. For the sake of brevity I will only highlight these points.

*1. Eligibility.* It is a scandal that the percentage of the unemployed receiving unemployment insurance ranges from a high of 60% in Massachusetts to a low of an almost incredible 17% in South Dakota, with a national average of 33% for fiscal 1990. New York State stands at 50% which is nothing to brag about in a state that claims a leadership role. Shame on our country for allowing this situation to come about.

The purpose of the UI system is to help unemployed people in time of need, not to punish them for the circumstances under which they lost or left a job. For this reason the AFL-CIO strongly supports federal standards which would generally limit state disqualification of UI claimants. Federal standards to set minimum UI eligibility requirements are necessary to assure "safety net" assistance for the 60% of the unemployed who are not now getting UI benefits. This is a legitimate and proper role for the federal government, and it is much needed to assure a greater degree of fairness and equity in the state UI programs.

Benefit levels are too low. Even those jobless workers lucky enough to get UI benefits do not do very well. They end up getting an average of only one-third of the previous earnings—far less than the 50% average recommended by the National Commission on Unemployment Insurance in its 1980 report.

*2. Exhaustion of Benefits.* There is an urgent need to reform or replace the present federal-state extended benefits program to help workers and their families through the personal and family crisis of long-term unemployment.

Unrealistic and unworkable state unemployment triggers for extended benefits have the effect of denying benefits to most long-term unemployed workers. The existing Insured Unemployment Rate (IUR) trigger for activating extended UI benefits is unrealistic and unworkable. The IUR is far below the Total Unemployment Rate (TUR) and, therefore, a poor indicator of the true level of unemployment. Furthermore, the IUR is excessively and wrongly stable when the TUR goes up. The TUR is the obvious and logical trigger to use in determining when a state can activate its extended benefits program.

*3. Administrative Financing.* In recent years, as unemployment has been going up, there have been chronic problems of under-funding of federal grants to the states for administering the unemployment insurance system. This creates serious problems and inefficiencies in administration of UI—and it leads to heart-rending delays and hardships for jobless workers seeking the UI benefits to which they are entitled.

For example, in Michigan, workers claiming UI benefits are waiting up to five weeks for their first check. In Maine, workers are waiting three to four weeks for a check. As the recession gets worse and unemployment rises, we will see longer lines at overcrowded UI offices, more offices closing, and more service breakdowns like the January failure of New York State's computer system because of an unmanageable overload of UI claims.

Therefore, we urge that funds for a UI administration should be an entitlement grant appropriated automatically. This would provide funds necessary for local un-



employment compensation offices and for local employment service offices to assure adequate services for the growing number of unemployed.

4. *Insolvency of State Trust Funds.* Unfortunately, state trust fund accounts from which UI benefits are paid are in terrible shape to deal with recession and high unemployment. The May 1990 GAO report warned that the probable result of state UI trust fund insolvency in 1991 would be (1) intensified action by the states to make it more difficult for workers to qualify for UI benefits; (2) continued state action to restrict the size and duration of UI benefits; and (3) perhaps even higher state UI taxes on employers.

All these actions in time of recession would be contrary to the two key purposes of the unemployment system: first, to provide cash benefits and income support to unemployed workers; and second, to help stabilize the economy during recession by helping to maintain consumer buying power.

#### CONCLUSION

Senator Moynihan, the problems of eligibility standards, benefit levels, disqualification periods, a flawed extended benefits program, inadequate funding of the state unemployment compensation and employment services, and the financial solvency of state trust funds, all require urgent action by Congress.

Representative Downey has introduced HR 1367 and the AFL-CIO supports that bill as a good first step. The Downey bill is a step forward toward effective federal standards to widen eligibility for benefits, a new and improved federal supplemental compensation program to deal with benefit exhaustion, and more funding for state administration of UI. It should be noted, however, that the Downey bill does not raise the miserably low level of state UI benefits.

Senator, we again thank you for your initiative in calling this hearing and like our national office, the New York State AFL-CIO is eager to work with you to advance sound legislation in this area. Thank you

#### PREPARED STATEMENT OF WILLIAM J. CUNNINGHAM, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AFL-CIO

[BEFORE THE HOUSE WAYS AND MEANS COMMITTEE ON HUMAN RESOURCES ON  
UNEMPLOYMENT INSURANCE PROGRAMS, FEBRUARY 6, 1991]

Mr. Chairman, I appreciate this opportunity to present the views of the AFL-CIO on the serious problems in the nation's unemployment insurance system.

Unemployment insurance (UI) is the first line of defense for workers and their families when a breadwinner loses his/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. By helping maintain consumer buying power, UI benefits serve as a counter-cyclical stimulant when the economy goes into recession.

Unfortunately, the unemployment insurance "safety net" is full of holes. The situation is so bad that the AFL-CIO Secretary-Treasurer, Thomas Donahue, calls it a safety net "crafted by Edward Scissorhands gone berserk." The system has become woefully inadequate as a result of changes during the past 10 years; now, in the midst of recession and rising unemployment, the deficiencies of the UI system—as income support for workers and their families and as a counter-cyclical economic stimulus—are more apparent.

#### COVERAGE

Most important is the tragic failure of UI to provide income support for those who lose their jobs. Nearly two-thirds of all unemployed workers simply do not get any unemployment insurance benefits. Only one out of every three jobless workers get UI benefits.

The wide disparity in coverage among the states is demonstrated by the percentage of jobless workers receiving UI benefits. In Connecticut it was 38 percent; Tennessee—31 percent; New York—71 percent; Texas—21 percent; Washington—39 percent; Michigan—34 percent; Wisconsin—42 percent; Florida—20 percent; Iowa—31 percent. [Data based on 10 year average between 1979-1989]

Let me provide further information:

In 1989, there was an average of 6,520,000 persons unemployed every month, but the number of persons getting unemployment insurance benefits every month averaged only 2,220,000. So, only 34 percent of all unemployed persons in 1989 were getting UI benefits.

In 1990, the average number of unemployed workers grew to almost 6.9 million a month. But those receiving UI benefits were less than 2.6 million. About 4.3 million unemployed Americans went without any jobless benefits in a typical month in 1990.

By contrast, during the 1975 recession, 75 percent of the unemployed were getting UI benefits, and during the 1982 recession 45 percent were getting benefits. Many of these workers have years of work experience but are denied benefits because of restrictive eligibility requirements.

A variety of sophisticated econometric studies will give you various reasons for this decline in the proportion of jobless workers getting UI payments. Changes in the geographic, industrial, and demographic make-up of the work force are among these reasons. But one of the most important reasons is that too many state legislators and too many state UI administrators adopt the employers' view that it is more important to keep UI taxes low and UI eligibility restrictions high rather than to help unemployed workers and their families with adequate UI payments.

In 1988, the Congressional Research Service study prepared for your Subcommittee noted that many state UI program characteristics are difficult to measure. "Statistical models have a difficult time pinpointing the policy changes that could have played an important role in the declining jobless beneficiary rate." (CRS-4.15)

Nevertheless, the Congressional Research Service cited these state policy changes as contributing to the decline in the jobless beneficiary rate:

- (1) Increased monetary eligibility requirements in some states;
- (2) Reductions in maximum duration of benefits receipt; and
- (3) Tightening of job search requirements. (CRS-4.13)

However, the bottom line is that most jobless workers will not receive unemployment benefits. We think this is wrong and unacceptable.

### UI BENEFIT LEVELS

Even those jobless workers lucky enough to get UI benefits do not do very well. They end up getting an average of only one-third of their previous earnings. That is certainly not substantial replacement of wage income and it is far less than the 50% average recommended by the National Commission.

The average weekly UI benefit is just \$161 a week. This is only 37 percent of the \$433 average weekly wage in covered employment.

As you will note on the table which I have attached to my testimony, there is a wide range of maximum and average weekly UI benefits among the various states. But in all states, the average weekly benefit is far below the average weekly wage in covered employment. There's simply not enough replacement of workers' wage income to maintain a decent standard of living. We believe benefits should be at least 50 percent of a worker's previous wage, up to a maximum of 67 percent of the state's average weekly wage. For example, the weekly benefit level for Connecticut was \$195; (only 36 percent of the average weekly wage). There are similar figures for Tennessee—\$113 (30 percent of the weekly wage); New York—\$181 (34 percent of the weekly wage); Texas—\$162 (39 percent of the weekly wage); Washington—\$169 (40 percent—of the weekly wage); Michigan—\$208 (44 percent of the weekly wage); Wisconsin—\$167 (43 percent of the weekly wage); Florida—\$144 (37 percent of the weekly wage); and Iowa—\$157 (34 percent of the weekly wage). [Data based on 10 year average between 1979-1989]

Our unemployment system is a federal/state system. State legislatures decide how big UI benefits will be, how long benefits are paid, who is eligible, and how much employers will pay in state UI tax. It should be no surprise, therefore, that employers are very successful in keeping state UI eligibility standards very restrictive, so that few people will qualify for UI benefits. And it is no surprise that employers successfully press for low UI taxes, low UI benefits and short duration of UI payments.

"Experience rating"—which means lower UI taxes for employers with lower layoff rates—demonstrates that employers have a vested interest in keeping UI eligibility requirements very restrictive and keeping unemployed workers from getting UI benefits.

### EXTENDED BENEFITS

Furthermore, the UI system does not effectively cope with long-term unemployment. Almost one-third of those who do get UI payments exhaust their benefits before they find a job. Unrealistic and unworkable triggers for extended benefits have the effect of denying benefits to most long-term unemployed workers.

In 1990, there were 2,300,000 jobless workers who used up all of their unemployment benefits. This was a 16 percent increase in the numbers of workers who exhausted UI benefit.

Long-term unemployment raises the number of people who exhaust their UI benefits before they find a job. For the 12 months ending in June 1990, there were more than 2 million workers in this situation, 28 percent of all workers who got "first payments" of UI benefits during that period.

In New York, the exhaustion rate was 33 percent; in Ohio 22 percent; in Tennessee 26 percent; in Florida 39 percent; in California 29 percent; and in Colorado 34 percent. [Based on 10 year average for 1979-1989]

The important point to draw from these numbers is that a substantial number of those workers, lucky enough to draw unemployment insurance benefits, use up all the benefits to which they are entitled under state law before they find a job. These workers and their families need extended UI benefits to help them through the personal and family crisis of long-term unemployment.

The existing Insured Unemployment Rate (IUR) trigger for activating extended unemployment compensation benefits is unrealistic and unworkable. No states now are triggered "on" for extended benefits but it is reported that Alaska and Rhode Island might this month. The effect of the present extended benefits trigger is to deny benefits to most long-term unemployed workers.

The present trigger allows a state to extend UI benefits for a 13-week period (1) if the state's 13-week average IUR is at least 120 percent of the average of its 13-week IUR during the same 13-week calendar period over the last two years and the current 13-week average is at least 5 percent; or (2) at the state's option, if a state's current 13-week average IUR is at least 6.0 percent. Most states have adopted the 6 percent trigger. The trigger goes "off" and extended benefits end when the state no longer meets these requirements.

The Insured Unemployment Rate is simply not a realistic picture of total unemployment in the U.S. generally, nor in the various states. The 1988 Congressional Research Service study for your Subcommittee suggests that the IUR no longer accurately reflects labor market conditions, (CRS-6.10), and added "The reliance on a state's IUR as a trigger for extended benefits limits the availability of the program for states experiencing rising unemployment levels and increases in long-term unemployment." A recession simulation by the Congressional Research Service indicated very slow and inadequate triggering-on during a recession and excessively fast triggering-off following a recession.

The IUR is far below the Total Unemployment Rate (TUR); and, therefore, the IUR is a poor indicator of the level of unemployment. Furthermore, the IUR is excessively and wrongly stable when the TUR goes up. The IUR simply fails to reflect current conditions of unemployed.

Some state comparisons for December 1990 illustrate the vast difference between the Insured Unemployment Rate (IUR) as compared to the Total Unemployment Rate (TUR). In California, when the TUR was 7.1 percent, the IUR was 3.2 percent. In Florida, when the TUR was 5.5 percent, the IUR was 1.7 percent. In New York State, when the TUR was 5.5 percent, the IUR was 2.8 percent. In Ohio, when the TUR was 5.8 percent, the IUR was 2.2 percent. In Massachusetts when the TUR was 7.4 percent, the IUR was 3.6 percent. In Michigan when the TUR was 7.3 percent, the IUR was 3.2 percent. In Texas when the TUR was 7.2 percent the IUR was 1.7 percent.

These state comparisons make it clear that the Insured Unemployment Rate is unrealistic and unworkable as an indicator of state unemployment conditions. If triggers must be used to determine when a state can activate extended unemployment benefits, then the Total Unemployment Rate is the obvious and logical measure.

#### STATE SOLVENCY

Unfortunately state trust fund accounts from which UI benefits are paid, are in terrible shape to deal with recession and high unemployment. The General Accounting Office has detailed for this Subcommittee the failure of many states to accumulate sufficient reserves during the years of economic growth to pay UI benefits during recession years. The GAO noted that a severe recession in 1991 will force 22 states borrow more than \$17 billion to keep up their UI benefit payments.

The May 1990 GAO report warned that the probable result of state UI trust fund insolvency in 1991 would be (1) intensified action by the states to make it more difficult for workers to qualify for UI benefits; (2) continued state action to restrict the size and duration of UI benefits; and (3) perhaps even higher state UI taxes on employers.

All these actions in time of recession would be contrary to the two key purposes of the unemployment system: first, to provide cash benefits and income support to un-

employed workers; and second, to help stabilize the economy during recession by helping to maintain consumer buying power.

For many states this problem will be very serious since they may not be able to repay the loan during the current fiscal year and will be required to pay interest on the outstanding debt.

#### STATE UNEMPLOYMENT COMPENSATION & EMPLOYMENT SERVICES

Yet another UI problem relates to appropriations and inadequate funding provided by the federal government for administration of state unemployment insurance and employment services. The tragic effect of this under-funding for administration at the state level is a reduction of services to jobless workers at a time when they are most in need.

Administrative funding shortfalls and instability in local offices serving unemployed workers have grown in recent years. Offices are closed, hours of service are shortened, and experienced UI staff are laid off. This makes it increasingly difficult for jobless workers to collect the UI benefits to which they are entitled and to receive the counseling and assistance to help them become reemployed.

For example, in Michigan workers claiming UI benefits are waiting up to five weeks for their first check. In Maine, workers are waiting three to four weeks for a check. As the recession gets worse and unemployment rises, we will see longer lines at overcrowded UI offices, more offices closing, and more service breakdowns like the January failure of New York State's computer system because of an unmanageable overload of UI claims.

One productive approach to increase federal resources for UI administrative funding would be to increase the taxable wage base to 65 percent of the average annual wage as recommended by the National Commission on Unemployment Compensation. Under this proposal, the taxable wage base in 1990 would have been \$14,770 instead of the present inadequate federal base of \$7,000. It would improve the solvency of the state benefit trust fund by enabling states to set tax rates that are far less regressive and provide for adequate funds for the administration of this program.

I recognize that administrative funding for the UI system is not a direct problem before this Subcommittee, but we urge the Congress to take action necessary to keep the system operating effectively in getting UI payments to jobless workers in time of personal and family crisis.

In conclusion, Mr. Chairman, if Members agree with the objectives of unemployment compensation system (income replacement for jobless workers and counter-cyclical assistance for communities) then the existing unemployment compensation system falls far short of these goals. The problems with eligibility standards, benefit levels, disqualification periods, a flawed extended benefits program, inadequate funding of the state unemployment compensation and employment services and the financial solvency of the state trust funds all require urgent Congressional action.

Mr. Chairman, we appreciate your leadership and the interest of this Subcommittee in maintaining and improving the nation's unemployment insurance system. The AFL-CIO is eager to work with you and with the members of the Subcommittee and the Subcommittee staff to advance sound legislation in this area.

Thank you.

---

#### PREPARED STATEMENT OF ROBERT THOMAS DU VAL

My name is Robert Du Val, I appear here today on behalf of the New York State Business Council's Committee on Unemployment Compensation. I serve as Vice Chairperson of that Committee. I am an attorney at law and a member of the New York and New Jersey bar. I am also President of Unemployment Cost Control, Inc., a consulting firm which has been working for employers since 1901. Our clients are nationwide, with a heavy concentration in the New York City metropolitan area. We represent over one thousand employers, both large and small.

#### THE FEDERAL—STATE UC SYSTEM IS DOING A GOOD JOB OF ACHIEVING ITS BASIC GOALS

Unemployment compensation was enacted as part of the original Social Security Act of 1933 to provide temporary, short term financial help to persons who had been regularly employed and have become involuntarily unemployed through no fault of their own and are ready, willing and able to work. Today, over 98% of all workers are covered by unemployment compensation. Well over 80% of job losers are now qualifying for benefits.

As with all things, change is inevitable and it can often be for the better. While generally satisfied with the system as it stands I do have opinions as to how it might change in the following areas:

1. Should the administrative trust funds remain part of the unified federal budget system?
2. Is there an effort to force unemployment compensation to do the job of other social programs which are not being funded?
3. To what extent are due process considerations being set aside as a result of alleged manpower shortages?
4. Does the concept of "ready, willing and able" have any meaning in today's world of "mail reporting"?
5. Wage request systems should not be eliminated; rather, they should be encouraged.

#### ADMINISTRATIVE FUNDS AND THE FEDERAL BUDGET

At the State level unemployment compensation trust funds are kept separate from the general tax revenues and are not to be used for any purpose except paying benefits to claimants. As a result of this policy as well as general economic conditions, State funds in the past several years are at record solvency levels. State accounts contain approximately two percent of total wages. This is the highest percentage in eighteen years. New York State alone has about three billion dollars in its fund. Such surpluses in the State funds have led to decreases in the employer tax rates. Such has not been the case at the Federal level.

The FUTA tax has not decreased, possibly because the FUTA tax revenues are considered as part of the unified federal budget and therefore there is a tendency to overfund this program. The 0.2% additional FUTA tax which was to be temporary has not been eliminated although there are surplus levels in the employer—paid, dedicated federal funds use to operate the State systems. I believe that as long as the FUTA tax is part of the unified federal budget that there will be a disincentive to remove this "temporary" tax.

There is also a disincentive for the federal government to fund adequately the various state programs if appropriation of these dedicated monies will appear to heighten the federal deficit. Many state agencies, including New York, have reduced services and complained bitterly about reduced funding for their operations. I believe that it is in the interest of everyone that the state operations be properly funded. FUTA funds are marked for administration of the unemployment compensation system. Piling up more than an adequate surplus for the purpose of stating a better balance in the unified federal budget is unnecessary and wrong minded. One can argue forever about what level of surplus is adequate, but it is only by separating the FUTA revenues from the unified federal budget that we can be certain that the level of funding is not being determined by factors other than those maintaining the integrity of the state systems.

Some have advocated the need to increase the federal taxable wage base. Such claims should be regarded with suspicion as long as FUTA funds remain as part of the unified federal budget. The Business Council membership is of the opinion that the federal taxable wage base is adequate in that it is achieving its goal of maintaining adequate surpluses.

As such there is no need to raise the federal wage base. Various states may need to raise their state wage base to meet funding requirements which are greatly influenced by their divergent tax rating formulas. These states have done so. Other states have not as there has been no need to raise the wage base. For example, New York maintains a \$7,000 base whereas in New Jersey it is \$14,400. Yet, New York's fund is more flush than New Jersey's.

#### SHOULD THE ROLE OF UNEMPLOYMENT COMPENSATION BE EXPANDED?

Many social programs have not been funded to the extent that their proponents and special interest groups would like this year. Some programs have been cut and others have not seen increased dollars. On the other hand, state unemployment trust funds have grown in many instances. Desires to institute programs abound and more than one government official has wondered how to expand the role of unemployment compensation to cover other social programs that need funding.

Any expansion of the role of unemployment compensation would be unwise. The obvious reason is that if one uses the unemployment funds for something else nothing will be left for the unemployed. However, two less obvious reasons exist. There is no "needs" test in the unemployment system whereas almost all social programs only grant aid to those in need. Substitution of unemployment compensation into

the role of funding provider would mean granting aid to everyone, regardless of their financial status or family requirements.

Another distinction between unemployment compensation and other forms of social benefits is that unemployment is paid for by the employers. Other programs are funded from general revenues. Expansion of the role of unemployment compensation to cover other societal desires would be a departure from this traditional method of funding. The federal—state unemployment compensation system does its job well. Please do not allow tampering which would create a less efficient system of delivering desired services.

#### DUE PROCESS AND MANPOWER

Claims of inadequate funding of state operations have been offered to explain several shortcomings in the state systems. In New York, employers are not sent hearings notices, or permitted to participate at many hearings which involve the issues of availability or capability. Availability concerns the issue of willingness to accept work and capability usually concerns medical conditions. Employers always have something to add concerning the availability of jobs and through employers' health coverage plans information almost always exists about employee illness. Ability to participate in hearings which determine charges to an employer's account has always been thought of as a basic due process requirement. The New York Department of Labor thinks otherwise.

#### READY WILLING AND ABLE AND MANPOWER

For many years recipients of unemployment benefits were required to report to their neighborhood office and certify for benefits on a weekly basis. At present, this is done by mail every other week in the states of New York and New Jersey. Many other states have also adopted mail reporting. The first casualty of this new policy is the control which had been exercised over the claimants' search for work. One of the traditional requirements for unemployment benefits was willingness to accept work, which was demonstrated by looking for a job. Without claimants reporting on a weekly basis the unemployment offices have no opportunity to interview claimants. It is true that random audit programs have been instituted, but for various reasons these are inadequate.

It is not an exaggeration to state that in the New York City metropolitan area there is no longer an effective availability requirement in the unemployment compensation systems of New York or New Jersey. Without access to the claimants the state offices cannot adequately police the situation. Also, when employers initiate inquiries into this issue the states cannot respond as they do not have access to the claimants. Lack of administrative funding has always been cited as the reason for the deterioration of various services of the unemployment compensation system.

#### THE BENEFITS OF WAGE REQUEST SYSTEMS SHOULD NOT BE ELIMINATED

The New York State unemployment compensation system is unlike most others in that it maintains a wage request system. That is, at the time an unemployment compensation claim is filed, the employer is required to report former employees' wages for the last year. This information is necessary to calculate the benefit level. Most other states require quarterly reporting on all employees—not merely the formerly employed—and use those on file reports to determine benefit levels. While the New York system is somewhat cumbersome and an inconvenience for employers, it does offer two major benefits. Primarily, the most recent wages are used to determine benefit levels. Usually, this results in higher benefit levels. In addition, more claimants will be eligible in request states. Quarterly reporting states often turn claimants away if they have not worked for a minimum of one year even though the state law may only require six months of employment to qualify for benefits. This happens because the quarterly reporting system by its nature always lags three to six months behind the most recent employment experience.

States should be encouraged to use the most recent wages in determining eligibility for benefits. The advantage to employers is one of immediacy and involvement in the system. My experience indicates that a state with a request system will generate more interest and involvement among the employer community and higher benefit levels for claimants.

## PREPARED STATEMENT OF THOMAS F. HARTNETT

Good morning. I am here today on behalf of every resident of New York State. But in particular, I am here on behalf of 90,000 New Yorkers who are presently suffering undue hardships at the hands of the federal government.

On March 16 of this year, these New Yorkers should have become eligible for extended unemployment insurance benefits. These New Yorkers who lost their jobs through no fault of their own, should have landed in a safety net that would have assured them the continued availability of benefits as they struggle to locate new employment in a recession hardened economy.

But, unfortunately, in 1982, the Reagan Administration cut some gaping holes in that safety net and, to date, 90,000 New Yorkers and an estimated one-half million Americans have fallen through the holes left behind by the previous administration.

Prior to 1982, the federal government provided extended benefits to unemployed individuals based on a realistic formula linked to high unemployment. What the Reagan Administration did was to change the formula and place unreasonable restrictions on the availability of benefits. If the old formula was still in place, extended benefits would have become available to New Yorkers on March 16, 1991. Now, under the present formula, it is doubtful these benefits will become available to New Yorkers at all.

I am here today, Mr. Chairman, to ask you to help repair the holes in this vital safety net.

The recession this country is now facing is undeniably severe. Everyone is feeling the effects, from government, to business, to working men and women.

Government and business say they cannot foot the bill to pay for the extension of unemployment benefits. Well, we are not asking them to.

There is presently over \$8 billion in a trust fund specifically dedicated to the purpose of paying extended benefits in times of high unemployment. The money, which was raised through employer taxes, can be used for no other purpose.

The Office of Management and Budget has released figures that indicate that during 1991, the trust fund will actually take in more in employer taxes than it will pay out in extended benefits in those few states where benefits are presently available.

In short, during this time when our long-term unemployed are being denied extended benefits, the trust fund will be stockpiling more money. The federal government will let billions of dollars sit in this fund to mask the U.S. deficit, while hundreds of thousands of Americans sink further and further into poverty.

This, in my opinion, is a breach of trust. It is a breach of trust of employers who paid their taxes into the fund, and it is a breach of trust of unemployed workers who rightfully expected the money to be there when they needed it.

Earlier this month, the *Los Angeles Times* reported on the record number of families who are receiving public assistance through the Aid to Families with Dependent Children program. More than 12.5 million Americans are now receiving public assistance through this program, surpassing the previous peak which occurred during our last recession in 1981.

The *Times* cited experts who claim that one of the major causes for this increase of Americans on welfare is the failure of the federal unemployment insurance system to pay extended benefits to the growing number of long-term unemployed.

This is an American tragedy unfolding before our eyes. People who worked hard all their lives are suddenly left with no job and are being forced to turn to friends, family or public assistance after their benefits run dry.

At the New York State Department of Labor, we recently conducted a telephone survey of some of our recent unemployment insurance recipients who had exhausted their benefits. The purpose was to find out how they are coping. Had they found a job yet? How were they making ends meet? Let me share with you some of what they told us. The following are direct quotes from people who have exhausted their benefits:

- "If I didn't move in with my parents, I would be living under a bridge somewhere like a bum.
- "I had to take a part time job. Now I don't have time to look for a good job."
- "The stress caused by not being able to pay my bills made me sick. I have no health insurance to pay those bills."

And finally:

- "My husband lost his job, also. I can't believe we can help Kuwait but not help people here that need help."

We all are familiar with the old expression, "There, but for the grace of God, go I." Never has that expression had such an intense meaning than now, during this recession, a recession which has no boundaries and makes no exceptions.

Between the first quarter of 1988 and the first quarter of 1991, we have seen an 81% increase in the number of New Yorkers exhausting unemployment insurance benefits. More than 40% of these exhaustees are professional/technical/managerial employees, more commonly known as "white collar." For the majority of these benefit recipients, this was the first time they ever had to file for unemployment.

In addition to those people exhausting benefits, we know that the average number of weeks that all claimants are receiving benefits has been steadily increasing. In 1988, the average claimant received benefits for 16.5 weeks. Our most recent figures for 1991 show that the average claimant is receiving benefits for 19.6 weeks. This figure represents the highest average duration of benefits in more than ten years.

What we are asking here today, Mr. Chairman, is a return to a fiscally responsible and compassionate national Unemployment Insurance system.

The formula that allows the extension of benefits to trigger on in individual states should be changed back to the more realistic triggers that existed prior to 1982.

Our most current figures indicate that there are now approximately 637,000 unemployed men and women in New York State. Under the old formula, the availability of extended benefits should have triggered on when the number of unemployed in New York reached approximately 611,000. Under the present formula, the number of unemployed would have to soar to approximately 940,000 before a single individual became eligible for extended benefits. This means the state unemployment rate would have to climb from the present level of 7.4% to approximately 11%.

Our analysts believe that the unemployment rate in New York will not climb this high. But they also believe thousands more New Yorkers will exhaust their benefits before the recession ends. And for them, there will be nowhere to turn.

Another important fact to note is that the number of people exhausting their benefits during the current recession—the number of people who are falling through the holes in the safety net—is greater than the number of people who exhausted their 26 weeks of benefits and became qualified for extended benefits in the recession of the early 80s.

Mr. Chairman, often, when we discuss the subject of unemployment insurance, the question of "dignity" arises. People who have lost their jobs and are fighting to make ends meet also struggle continually to maintain their dignity.

In New York State, we have attempted to help the unemployed in their struggle for dignity by opening Community Service Centers. These centers are professional, client-oriented facilities in which we provide a myriad of job-related services designed to help the unemployed survive difficult times with their dignity intact.

During times of high unemployment, we must work harder and longer to assure that all of the needs of the unemployed are met. We cannot do this without the help and the commitment of the federal government.

Frankly, Mr. Chairman, there have been times during the last two years when the federal government has been more adversarial than helpful in our struggle to assist the growing numbers of unemployed.

I speak of the recent Unemployment Insurance shortfall that put a stranglehold on administrative funds necessary to meet the burgeoning needs of the unemployed in New York State and throughout the country. As the unemployment rate was rising, we were being forced to cut back on staff and close down offices. Unemployment lines were forming out the door and around the block at some of our New York City offices.

Finally, after the problem was reported nationwide, after states like Michigan and Massachusetts were forced to make the unemployed wait more than a month for benefit checks, finally, the Bush Administration and the U.S. Congress came through with funds to alleviate the shortfall.

Mr. Chairman, I believe what the Administration did was to place a band-aid on an open sore, while ignoring the massive infection growing underneath. If we are to assure the future integrity of the entire unemployment insurance system, we must take immediate steps to reform the program and prepare for all future crises.

The first step must be to move the administrative costs of the unemployment insurance program from a discretionary fund to a mandatory fund, a fund that is immediately available on the basis of workload requirements. Instead of having to go back to Congress every time the unemployment level rises and wait for the government to take action—while the lines and frustrations grow longer and stronger each day—the funds should be automatically available.



These funds are the result of employer taxes that have already been paid. There should be no hesitation in turning them over to the states for the administration of the Unemployment Insurance program. That is why the employers paid the tax in the first place.

It is also important to note that the Unemployment Insurance program is the only state-administered entitlement program that does not have mandatory administrative funding.

The bottom line, Mr. Chairman, is that the present Unemployment Insurance System is not working. It is not working for those who administer the program and it is not working for those who exhaust their benefits.

I think the comment of one of the benefit exhaustees that I read earlier warrants consideration. Why is it that the United States, which is the first to rush in and help the victims of a foreign aggressor, or an earthquake or a volcano, hesitates and often refuses to help the most needy people here at home?

People who lose their jobs, exhaust their benefits and cannot afford to put food on their tables are no less in need than people who lose their homes to a typhoon.

Mr. Chairman, I know that you share my concern and compassion for the hundreds of thousands of Americans who are feeling the devastating effects of this recession. Governor Cuomo and I stand ready to assist you and the Subcommittee on Social Security and Family Policy to find realistic, humane solutions to this continuing American tragedy.

It is time, now, for the Congress to act to pass legislation that will ensure the availability of extended benefits, which have existed during each of the last six recessions this country has faced, dating back to the 1950s.

There has been a fair amount of legislation discussed and proposed at the federal level. But we believe any proposed solution should include consideration of the re-establishment of the Federal Supplemental Compensation Program that existed between 1981 and 1985.

There is no doubt that the federal government was the major driving force behind the current recession. Decisions made at the federal level caused a significant increase in the federal deficit in the last ten years, a trade imbalance that threatens more American jobs every day and an international monetary policy that is in shambles.

Based on the size of the current federal trust fund, and the relative instability of the trust funds in many of the states, a federal supplemental seems the most reasonable solution to an increasingly dire situation.

In conclusion, Mr. Chairman, I would like to point out that the federal government has spent millions of dollars considering how best to meet the needs and solve the problems of the "Workforce of the Future." The Workforce 2000 study carefully details how the workforce is changing, what types of skills are necessary to fill the jobs of the future and how the U.S. must improve the skills level of our workers if we are to remain an economic leader in the international community.

Well, in New York State, the average age of an unemployment insurance claimant is 37. That means that the average man or woman who is unemployed today has a good 20 to 25 years left in the labor market.

Mr. Chairman, the workforce of the future are in my offices on unemployment lines—or worse, have exhausted their benefits and have no place to turn. How productive will they be in the next 25 years?

While we are gearing up to meet the challenges of the "Workforce of the Future," we had best not forget the needs of the unemployed of today. The dignity and compassion we show them in 1991 may well have a lasting impact on the productivity and capabilities of the workforce of the next century.

Thank you.

Attachments.



THOMAS F. HARTNETT  
COMMISSIONER OF LABOR

STATE OF NEW YORK  
DEPARTMENT OF LABOR  
GOVERNOR W. AVERELL HARRIMAN  
STATE OFFICE BUILDING CAMPUS  
ALBANY, NEW YORK 12240

July 8, 1991

The Honorable Daniel P. Moynihan  
United States Senate  
Russell Building  
Room 464  
Washington, D.C. 20510

*1 wtd by page*  
*Doc. 12-2 to*  
*ST-41 SFS*

Dear Senator Moynihan:

Thank you very much for the opportunity to testify at your hearing last week on the status of the federal unemployment insurance system.

It was encouraging to see the level of commitment you have to this vital program. I share your concern that the program has lost its strength and its focus due to unreasonable cuts made by the Reagan Administration in the early 1980s, cuts that continue to be favored by the current administration.

As I stated in my formal testimony, I stand ready to assist you and your colleagues fight to ease the restrictions on the availability of extended benefits. As some of the other witnesses at the hearing clearly illustrated, this issue is becoming one of survival for hundreds of thousands of Americans.

During the course of my testimony, you requested that I submit to you additional information regarding some of the subjects we discussed. I am hereby submitting this information.

In Attachment No. 1, you will note the anticipated increases in the size of the Extended Benefit Trust Fund Account over the course of the next five years, as predicted by the United States Department of Labor (USDOL). The account presently contains more than \$8 billion. With anticipated incoming tax revenue, compared with federal outlays in the form of extended benefits, the size of the fund will grow larger each year, reaching close to \$11 billion by the end of 1996. (These figures are provided to the Office of Management and the Budget by the USDOL.)

In Attachment No. 2, we have prepared, at your request, a description of the difficulties we have had during the last two years in obtaining the necessary amount of funding for the administration of our Unemployment Insurance program.

Finally, you requested additional information regarding the changes in the Insured Unemployment Rate that occurred as a result of the Federal Unemployment Compensation Act of 1976. As you are aware, the provisions of that act, which went into effect January 1, 1978, required states to extend unemployment insurance coverage to local government employees.

In New York State, this action added nearly one million workers to the state's total covered employment. Unemployment among local government workers, however, has traditionally been very low compared to most private sector industries. Therefore, the simple mathematics of adding one million persons to the denominator of the Insured Unemployment Rate (IUR) calculation caused the IUR to drop by about 0.7 percentage points.

The formula works as follows:

$$\text{IUR} = \frac{\text{Insured Unemployment}}{\text{Covered Employment}}$$

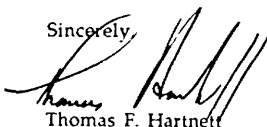
While the numerator (Insured Unemployment) remained basically unchanged, the addition of one million persons to the denominator (Covered Employment) caused the IUR to decrease. In other words, the difference between the total Unemployment rate and the Insured Unemployment rate increased by 0.7 percentage points simply because UI coverage was extended to local governments.

Attachments 3 & 4 illustrate how these rates have changed since 1974.

In conclusion, let me repeat that I have at my disposal a highly capable staff that is well-versed on all issues involving unemployment and unemployment insurance. I would be happy to provide you with the support you need to investigate this matter further and possibly propose or amend legislation that will improve the system and end the nightmare for hundreds of thousands of unemployed men and women.

Thank you again for your compassionate attention to this matter.

Sincerely,



Thomas F. Hartnett

Attachments

STATUS OF EXTENDED BENEFIT ACCOUNT (EUCA)  
 PRESIDENT'S BUDGET - FY 1992  
 (Billions of Dollars)

FISCAL YEAR	1990	1991	1992	1993	1994	1995	1996
FUTA Income	--	0.72	0.54	0.56	0.58	0.60	0.50
Interest Earnings	--	0.64	0.63	0.63	0.64	0.65	0.67
Overflow from ESAA	--	--	--	--	--	--	--
EB Outlays--Fed. Share	--	0.14	0.03	0.01	1	1	--
General Revenue Advances--EB	--	--	--	--	--	--	--
Repayment of General Revenue Advances	--	--	--	--	--	--	--
Outstanding General Revenue Advances	--	--	--	--	--	--	--
EUCA Balance (End of Year)	7.24	8.42	8.69	9.00	9.62	10.29	10.87
-Ceiling <sup>2</sup>	--	7.55	7.83	8.40	9.04	9.69	10.35
-Excess	--	0.87	0.86	0.60	0.58	0.60	0.52

<sup>1</sup> Less than \$5 million

<sup>2</sup> Statutory ceiling is .375% of covered wages

USDOL / ETA / UIS  
 Division of Actuarial Services  
 February 1991

### Unemployment Insurance (UI) Administrative Shortfall

UI administrative funding allocations to states are distributed based on each states' estimate of work loads for the upcoming fiscal year. Until recently, states were reasonably assured by USDOL that they would be reimbursed for higher than expected work loads. This is no longer the case.

Higher than expected unemployment over the last two years caused a significant shortfall in funds to administer the UI program. Part of the problem with the system is that the President's request for UI administrative funds each year is based on estimates of unemployment made nine months before the beginning of the fiscal year, and 21 months before its end. In FY 1991 alone, there was a 50% increase in projected claims from the time the President's original budget request was made in January, 1990. The result of these underestimates is a shortfall in funds to administer the UI program.

In both Fiscal Year 1990 and 1991, the UI shortfall was estimated to be \$100 million and \$200 million respectively. Because there is no mechanism for a contingency reserve like most other benefit entitlement programs, the only way in which additional funds can be provided for the UI program is through the passage of supplemental appropriations bills. In both years, these bills passed only after months of intense lobbying efforts by labor, business and state employment security agencies.

In FY 1990, passage of the supplemental did not occur until May 25, 1990, nearly six months after the first official acknowledgement of a shortfall from USDOL. The bill that was ultimately passed contained \$99.6 million for administration of the UI program and was part of the Aid to Panama/Nicaragua Bill. While the supplemental provided much needed relief to state employment agencies, for many of these agencies it was "too little, too late." Much of the damage had already been done. Many states had already been forced to close unemployment offices (three of which were in NYS), and individuals were subject to long lines and delays in receiving their benefit checks because of the states' inability to hire staff to deal with the backlog of claims.

In FY 1991, the shortfall in UI administrative funds was much greater than the previous year because the country was in the midst of a recession and most states were experiencing significantly higher numbers of individuals filing for unemployment. This year, the New York State Department of Labor projected a need of \$172 million to cover additional work load expenditures. We were told, in October, 1990, that we would be funded at somewhere between 75-85% of what we requested. Then in early 1991, we were told to expect only 55% of the additional funding.

The shortage in funds captured the attention of the media who began writing about the issue and showing the long lines in the unemployment offices across the country and highlighting the numbers of individuals who were exhausting their benefits. Finally, on April 10, 1991, the President signed legislation providing for a supplemental appropriation of \$150 million for all states (most states claimed that a

minimum of \$200 million was needed). The Administration further agreed to designate this supplemental as "emergency," thus assuring these additional funds would not be taken away from other domestic programs (a provision called for under the newly passed Budget Enforcement Act of 1990).

Based on this new appropriation, we received 75% of needed funding for the first quarter of FY 1991, and we have been told we will receive 97% for the remaining three quarters.

Many states contend that the \$150 million will not be sufficient to pay for the additional work loads that they experienced this year. States will not know if these monies are sufficient until the end of the fourth quarter in September 1991. One of the most serious problems states face under the current system is that we do not know what to expect and, therefore, it is difficult, if not impossible, to plan for the efficient operation of these programs.

#### - The Impact of the Budget Enforcement Act (BEA) of 1990 on the UI Program

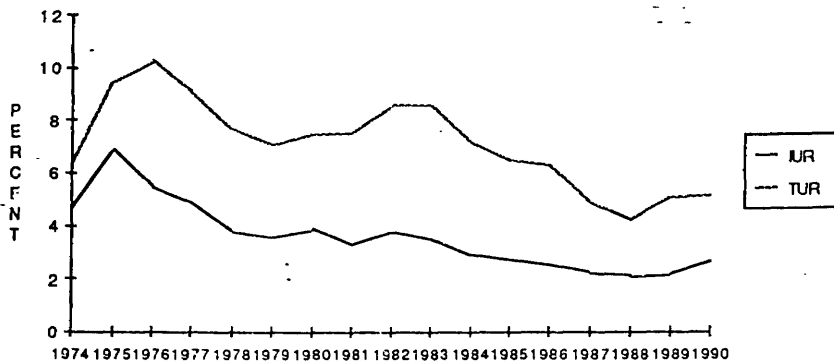
New restrictions put in place under the Budget Enforcement Act (BEA) of 1990 make the passage of future supplemental appropriations extremely difficult, due to the fact that the costs for administering the UI program are classified as discretionary, and thus are subject to the BEA's domestic discretionary spending caps. It is worthy to note that among the nine major benefit entitlement programs administered by the states (i.e., Medicaid, AFDC, Food Stamps, Child Support), UI alone has its administrative costs classified as discretionary rather than mandatory. Furthermore, administration of all other state-administered benefit entitlement programs are funded from general revenues. The administration of the UI program is the only state-administered benefit entitlement program that is funded by dedicated taxes (FUTA) deposited in Trust Funds. In FY 1992, this Trust Fund is projected to have a balance of \$2.84 billion, approximately \$1.52 billion above its statutory ceiling.

Among the solutions needed include:

- switching UI administrative funds from the discretionary category to the mandatory spending category;
- passage of appropriations language which includes a contingency;
- Unemployment Insurance reform that includes adequate administrative funding and a new vehicle to provide temporary additional UI benefits to those individuals who have exhausted their benefits.

## ATTACHMENT NO. 3

INSURED UNEMPLOYMENT RATES VS. TOTAL UNEMPLOYMENT RATES  
NEW YORK STATE  
1974 - 1990



IUR/TUR

## ATTACHMENT NO. 4

	A	B	C
1	Years	IUR	TUR
2	1974	4.7	6.4
3	1975	6.9	9.5
4	1976	5.5	10.3
5	1977	4.9	9.1
6	1978	3.8	7.7
7	1979	3.6	7.1
8	1980	3.9	7.5
9	1981	3.3	7.6
10	1982	3.8	8.6
11	1983	3.5	8.6
12	1984	2.9	7.2
13	1985	2.7	6.5
14	1986	2.5	6.3
15	1987	2.2	4.9
16	1988	2.1	4.2
17	1989	2.2	-5.1
18	1990	2.7	5.2

## PREPARED STATEMENT OF STEVEN A. HARVEY

Senator Moynihan, the Long Island Progressive Coalition welcomes this opportunity to testify before your committee this morning. We come bearing a message that unemployed workers on Long Island, in New York, and across the country would rather deliver themselves: 26 weeks of unemployment benefits is not enough, the unemployment insurance system is inadequate, benefits must be extended now!

We find it outrageous that our elected officials hold hearing after hearing and question expert after so-called expert about the inadequacies of the unemployment insurance system without ever listening to the real experts on unemployment: the unemployed. If you want to know about the weaknesses of the unemployment insurance system, convene a hearing at which you let the unemployed testify. The forum today is inadequate, because in the end it will probably generate more statistics and more opinions of so-called experts that, in the end, will remain unconvincing to the President and the Democratic leadership in Congress. Senator, if you want to do something to correct the inadequacies in the unemployment insurance system, you should call another hearing in New York City at which you provide an open forum for the unemployed to speak. Then you should continue the hearings on Long Island, in Albany, in Buffalo, Rochester, and elsewhere upstate where unemployed workers have run out of benefits, cannot find jobs, have inadequate access to training, and cannot meet the health care needs of their families.

Statistics are not the most important part of the story here, but any way you look at the statistics, unemployed workers in the U.S. face a crisis. Last year over 1 million people across the country, 200,000 in New York State alone, used up all 26 weeks of unemployment benefits.<sup>1</sup> Over 1 million workers exhausted their benefits between January 1 and April 30, 1991.<sup>2</sup> Figures from the New York State Department of Labor indicate that 58,500 New Yorkers, including nearly 10,000 Long Islanders, ran out of benefits between January 1 and March 31, 1991.<sup>3</sup> Unemployment in New York has increased 81 percent in the last three years.<sup>4</sup>

Meanwhile, a federal trust fund set aside to extend unemployment benefits beyond the initial 26 weeks sets basically idle. According to your own staff last week, that fund contains roughly \$9.2 billion. Less than 10 states qualify for an extension of benefits from that fund. New York State, as you know, does not qualify.

It is a disgrace that the Bush Administration refuses to spend this money. Even though the \$9.2 billion fund is a trust set aside solely for the purpose of providing additional unemployment benefits, the Bush Administration counts the money towards Graham-Rudman spending limits. With this sleight of hand bookkeeping, the Administration makes the federal budget deficit look less serious than it is. Meanwhile, unemployed workers lose their homes and join the welfare rolls.

It is also a disgrace that Democrats generally, and the Democratic leadership in particular, has done little or nothing to challenge Bush. The Downey bill, HR 1367, until last week the only proposal in Congress to extend benefits, has languished and died for the last two years and it continues to languish this year. House Speaker Foley has done nothing to move this bill. Ways and Means Committee Chairman Rostenkowski has done nothing to move this bill. Senate Majority Leader Mitchell has done nothing to move this bill. Senator Moynihan, you have done nothing to move this bill even though you have a reputation for exposing what the President some years ago might have called voodoo accounting practices by the federal government and even though more than 280,000 of your constituents ran out of unemployment benefits between January 1, 1990 and today.

The business community and many in Congress argue that the Downey bill would cost too much money. However, the current tax structure for the extended benefit fund, 0.8 percent of the first \$7,000 of payroll, is grossly regressive. Changing the tax to 0.3 percent of the first \$83,400 of payroll—a structure similar to that of Social Security—would be much more equitable and would result in reduced taxes for many small employers. To those who argue further that Congress should not pass the Downey bill because it is bad economic policy to raise taxes in a recession, we counter that it is good economic policy to encourage consumer spending money in a recession. Obviously, unemployed workers receiving benefits have more money to spend than those who have exhausted their benefits, particularly when many of those who have exhausted their benefits wind up on the street.

In any case, to claim that extending unemployment benefits would be too costly for business is a patently absurd argument: If the Bush Administration decided today to grant an immediate 13 week extension of benefits to every unemployed worker who exhausted their initial 26 week entitlement, the trust fund contains enough money to last for the next 2½ years, even if every beneficiary receives the maximum benefit amount of \$280. In other words, if one million workers per year



use up their initial 26 weeks and receive an additional 13 weeks of benefits (13 weeks x \$280 per week x 1 million beneficiaries) the cost per year would equal roughly \$3.6 billion. Of course, not all one million workers would receive the maximum benefit, so the \$9.2 billion fund might last considerably longer. The point, of course, is that benefits could be extended today without raising an additional penny of revenue for the next 2-3 years.

The argument that extended benefits are too costly seems particularly absurd when examined in comparison to recent history in the U.S. and to unemployment compensation systems in other countries with economies like our own. In 1976, unemployed workers could receive up to 66 weeks of benefits and a much higher percentage of unemployed workers qualified for benefits. (Today, less than 50 percent of the unemployed qualify for even the initial 26 weeks.) According to the Organization for Economic Cooperation and Development, Canada spends 1.68 percent of its gross domestic product (GDP) for unemployment compensation. France spends 1.34 percent of GDP, Germany 1.30 percent, the U.K. .94 percent and the United States only .38 percent.<sup>5</sup> In addition to spending a smaller percentage of GDP on unemployment compensation, the U.S. also has a shorter benefit period and replaces slower percentage of average wages than most other industrialized countries. According to Gary Burtless, a Senior Fellow of the Brookings Institution, Canada provides a 62 week benefit period and replaces 60 percent of average income, France provides 129 weeks of benefits and replaces 69 percent of income on average, Germany provides 52 weeks and replaces 63 percent of income, Japan provides 40 weeks and replaces 48 percent of income, Sweden provides 60 weeks and replaces 90 percent of income, the U.K. provides 52 weeks and replaces 19 percent of income, and the U.S. provides 26 weeks and replaces 46 percent of income.<sup>6</sup> The U.S. also compares unfavorably with Canada, France, Germany, and the U.K. in terms of job retraining. And, of course, the U.S. provides no health benefits for most of its unemployed workers whereas most of the countries previously cited provide comprehensive health coverage for all their citizens, employed or unemployed.

Senator, there have been many hearings recently on unemployment insurance reform, and none of these statistics are new to anyone. We are glad that you have decided to hold these hearings, but holding hearings will not help the unemployed of New York State pay their bills or keep them from losing their homes. To do that, you must do what few of your colleagues in Congress have been willing to do. We call on you to support an immediate extension of unemployment benefits. We call on you to demand that the Bush administration declare an emergency thus freeing up the \$9.2 billion unemployment benefit extension fund from the restrictions of Graham-Rudman. We call on you to support the Downey bill, HR 1367, unequivocally and publicly. We call on you to support and work in the Senate for additional reform of the unemployment system in this country, including more spending for job retraining, more enforcement against employment discrimination, and comprehensive national health care to cover unemployed workers and their families. Finally, we call on you to support unemployed workers who are trying to get the message out to politicians and to the public by continuing these hearings on Long Island and throughout the state and allowing an open forum for the unemployed—the real experts on this topic—to testify.

#### ENDNOTES

1. Statistics: New York Unemployed Committee.
2. Sar A. Levitan, Center for Social Policy Studies, The George Washington University, Statement before House Budget Committee Taskforce on Urgent Fiscal Issues, June 6, 1991, p. 1.
3. "Employment In New York State," Albany: State of New York Department of Labor Division of Research and Statistics, May 1991, p. 1, 3.
4. *Ibid.*
5. Taken from Statement by Howard Rosen, Research Associate, Institute for International Economics, in testimony before the Task Force on Urgent Fiscal Issues, House Committee on the Budget, June 6, 1991, Table 3. Organization of Economic Cooperation and Development, *Labor Market Policies for the 1980s*, Paris, 1990, Table 14. Data refer to period of 1988-1990.
6. Gary Burtless, Testimony for the Committee on the Budget, U.S. House of Representatives, June 6, 1991, p. 7.
7. Howard Rosen, *op. cit.*, p. 17.

## PREPARED STATEMENT OF LILLIAN D. LAYTON

Good morning Senator Moynihan. My name is Lillian Layton and today I represent the New York City Chamber of Commerce and Industry. I chair the Chamber's Committee on Unemployment Insurance. I also represent employers on the New York State Advisory Council on Unemployment Insurance and Employment. At present, I am a consultant for the New York City Transit Authority handling its unemployment insurance administration. Formerly I was the Staff Director of Unemployment Insurance for the NYNEX Corporation. The New York Chamber of Commerce and Industry represents the views of the down state employers. As such, the Chamber has several concerns regarding potential changes in the Unemployment Insurance Program. I would like to direct my remarks to (1) problems of the Unemployment Insurance Trust fund as part of the unified budget, (2) adequate financing of Unemployment Insurance Administration (3) the anticipated military downsizing and veterans' rights. To provide a sound Unemployment Insurance Program, there must be adequate financing that can weather the cyclical and other economic storms without endangering its mission of providing income to workers who lose their jobs through no fault of their own. In 1969, the Unemployment Insurance Trust Fund was made part of the unified budget. Apparently Mr. Charles Schultz, Economic Advisor to the President, believed that by unifying cash funds such as Unemployment Insurance, the public could better understand the budget process and unification could serve the objectives of a balanced budget. Unemployment Insurance Trust fund monies collected under the federal and state laws can only be spent on benefits and administrative costs. The Federal Government is only the trustee of the funds. To show such funds as a proper reduction in the federal budget is inappropriate.

Consequently, each time the Federal Government implements an austerity budget, the Unemployment Insurance Program suffers. Each time the Department of Labor has been forced to face reduction in force, resources and programs. In 1979 the New York State Department had about 14,000 employees. In 1991 there are approximately 6,000 employees serving 224,000 persons who filed claims for benefits by the end of April. Not only were there reductions in force, the New York State Department of Labor had to reduce or consolidate from 160 local offices in 1979 to 89 today. But New York State, as the same time, experienced the full brunt of the current recession since the first quarter of 1989 and is not bottoming out as the newspapers speculate. Friday's New York Times and the Wall Street Journal had articles showing the unemployment rate is still climbing.

Employers meet their obligation in maintaining the administrative funding by paying the Federal Unemployment Insurance Tax (FUTA). They have every right to expect that the Department of Labor fulfill its obligation to maintain adequate administrative services. It is not helpful 'to freeze' the funds by making them discretionary under the Budget Enforcement Act of 1990 to prevent them being disbursed in the mandatory manner.

What can be done to resolve this impasse? I know it is easy to say; "Remove the Unemployment Insurance Trust fund from the unified budget." But unless it is recommended and supported by a higher level consensus—nothing will be done. Therefore, the New York Chamber recommends that a "blue ribbon commission" be formed of top notch representatives from the public; academics, labor and business. Their mission should be to study and make recommendations to improve the federal budget process including the disposition of trust funds. The commission should be empowered to develop strategic and pragmatic solutions to the federal budget process.

It is our understanding that a bill is pending in Congress to provide additional administrative funding. Employers support its passage. There are adequate funds in the FUTA account to meet such demands without higher employer taxes.

A study conducted nationwide in March 1991 revealed 350,000 claimants exhausted their unemployment insurance benefits. New York State exhaustees totaled 90,000 or one quarter of the nation-wide figure. Unemployment Insurance exhaustees in New York State at the end of May 1991 were over 125% higher than the same period last year or the year before. Employers recognized that there is a need to identify, train and financially help these workers. Employers believe that these workers should be served by a federal program and not on the shoulders of employers who also feel the pinch of the recession. In the early 1980's the federal government had a program called Federal Supplemental compensation which paid additional benefits to claimants who exhausted regular benefits. The employers would like to see this program activated. As you are aware, ten (10) states have already triggered extended benefits. This is not without its difficulties. In New York State,

due to the recession, Unemployment Insurance Fund has declined dramatically from the high of \$3.5 billion in 1989 to less than \$2.1 billion in 1991 and is still declining. New York employers will pay higher unemployment insurance tax dollars in 1992. New York State employers support the Employment Service as an appropriate labor market exchange which derives funds from employer FUTA taxes. The Employment Service speeds the return to work of unemployment insurance claimants. The Chamber would like to suggest that a pilot study be made by using funds from Joint Partnership Training Administration. The study should be conducted by the New York State Employment Service. As you know, employers are required to provide a 60 day notice for plant closing. Instead of offering help after the plant closes, it is recommended that Employment Service become proactive and involved as early as possible to save the business and its workers. The Employment Service should provide guidance and training and help find new work products before the business goes under. A small business which did about 90% of its business in defense contracts was adversely affected by defense cutbacks. The employer developed new products and got his employees involved in new training programs. Today it is a going business doing less than 20% in defense manufacturing. The employer has told the Department of Labor that he wished that the guidance and resources offered by the Employment Service were available to him in a timely fashion.

The Department of Defense is starting a transitional downsizing of the military. It is our understanding that the Department of Defense has a budget of \$200,000,000 to accomplish its program and plans to have its five services, each with its own internal organization to administer the downsizing. Such fragmentation of out placement services in competing agencies is unhelpful, wasteful and duplicates facilities already in place in each state in the employment service area. Every state agency has the expertise and personnel in place which can handle the demands of the veterans and civilian workers affected by the downsizing much more effectively than any new ad hoc organization set up in each service. Veterans normally return to their home states. New York State anticipates 1,000 veterans per week returning to New York to live. They will apply for help in our state. The Department of Defense should be directed to use the existing employment service in each state. This is a temporary problem and states are best equipped to handle it. In fact, in 1918 the Department of Defense sought help from Employment Service. A newspaper article on the subject at that time is attached for your information.

Lastly, veterans should be entitled to the same benefit rights as other claimants and legislation should be enacted to protect their rights.

As I have stated, New York employers are interested in preserving the Unemployment Insurance system and would like you to consider the thoughts set fourth in this paper. Namely, the Blue Ribbon commission to study the federal budget problem; adequate unemployment insurance administrative funding; directing the Department of Defense to use the State Employment Services and to protect Veterans Unemployment Insurance rights.

Thank you for your courtesy in listening to our side of the problems.

# U.S. Employment Service Bulletin

PUBLISHED WEEKLY BY THE UNITED STATES EMPLOYMENT SERVICE OF THE DEPARTMENT OF LABOR.

Vol. 1

WASHINGTON, TUESDAY, DECEMBER 10, 1918

No. 43

## EMPLOYMENT SERVICE GIVEN TASK OF FINDING WORK FOR SOLDIERS, SAILORS, CIVILIAN WAR WORKERS; OPENING BUREAUS THROUGHOUT U.S.

### HELP PUT THIS PROGRAM ACROSS

Every newspaper, periodical, house organ, and publication of any kind receiving this copy of the BULLETIN is urged to give publicity to the program for replacing soldiers detailed heretofore.

The need for this work is only too apparent. During the period of transition from a war to peace basis literally hundreds of thousands of men and war workers will be temporarily out of employment. Thousands of men who have been called from one State to another will return to their homes to find new employment. At the same time the Army is being rapidly demobilized. When it is remembered that we have more than a million men in arms in the United States and more than 1,800,000 in France, most of whom are soon going home and many of whom have no work when they get there, the need for immediate action is obvious.

The Employment Service as such can not solve this problem alone; it is a national problem, more especially a community problem. In other words, in order to demobilize the munition plants and our armed forces in such fashion as to avoid suffering and a falling wage scale in the face of the continued high cost of living, we are going to require the best thought and the best effort of every community in the United States.

It is the newspaper and the periodical which is so able to arouse community interest and effort and to carry to the men in the camps the message that they should go home after discharge where they will find their friends and townspeople organized to help them through the local bureaus.

We ask your help to put this program across. There is an economic appeal, as well as the patriotic and sentimental appeals. Demobilization comes during the winter months when our worst conditions outdoor work is slack.

### TO UNIFY ALL NATIONAL AND COMMUNITY EFFORTS

Representatives of Service Now Being Stationed in All Army Camps—National Welfare Organizations Pool Through Service—Council of Defense System Puts Entire Machinery Behind Movement—Plan Approved by Department Secretaries

With the cooperation of the national welfare organizations, the Government agencies interested in demobilization, and local community organizations of all kinds, the United States Employment Service is establishing a Bureau for Returning Soldiers, Sailors, and War Workers in every city and town in the United States. It also has stationed qualified representatives in all Army camps and posts in this country to acquaint soldiers with the facilities for assisting them to suitable employment after they leave camp.

The reconstruction program of the Employment Service links up all national and local efforts, both governmental and private, and centralizes in every community, through these local bureaus, all information as to proper openings in industry, commerce, and agriculture available to the Nation's fighters and war workers. It calls for assisting them to the best work the country can give them, the individual's qualifications being considered, and for sending as many men as possible to the farms.

Since most soldiers are expected to go to their home communities—and should be encouraged to do so—the task of aiding them in finding work is primarily a community responsibility, and the local bureaus enable its discharge.

#### PROGRAM ADOPTED BY DEPARTMENT.

The program has been approved and adopted by the Secretaries of the War, Navy, Interior, Commerce, Agriculture, and Labor Department, sitting as the members of the Council of National Defense. In the same capacity, these cabinet officials most concerned with demobilization have taken steps to keep intact the field machinery of the defense council so that it may be utilized by the Department of Labor and its Employment Service in carrying out the replacement program. Their action brings to the Employment Service's aid a total of 184,000 local units, among them being the State councils, 4,000 community councils, and 16,000 women's organizations.

#### COOPERATIVE CENTRAL BOARD AT WASHINGTON.

Representatives of the welfare and other private organizations and the Government agencies compose a cooperative Central Board at Washington, through which a complete pooling of all efforts to assist soldiers and war workers to employment has been effected. Nathan A. Smyth, Assistant Director General of the United States Employment Service, is chairman. In addition to the welfare organizations, the board includes such bodies as the American Council of Education, interested in having college students in the camps return to complete their courses; the General Staff of the Army; the Federal Board for Vocational Training, charged with training and placing crippled soldiers; and other agencies.

## PREPARED STATEMENT OF PHILIP B. LEVINE

Mr. Chairman, I would like to thank you for this opportunity to share some of my views on the unemployment insurance (UI) system. The issue that I would like to discuss today is the method of UI financing. In particular I will discuss problems created by the existence of a low taxable wage base, or a specified amount of earnings upon which UI taxes are levied, which is unadjusted for inflation. The problems that concern me are the system's financial instability and increasing regressivity created by the taxable wage base. While these problems may become more noticeable during an economic downturn, as we are currently experiencing, they are important regardless of the state of the business cycle. In my remarks, I will provide some background information and then address each of these problems in turn. I will conclude by suggesting some straightforward policy alternatives which address these issues. I use the New York State UI system, which is quite typical, as an example throughout my remarks to clarify issues.

## BACKGROUND

The UI system in the United States is administered by individual states, but is subject to federal guidelines to insure some uniformity across states. The taxable wage base is one of the components of the system subject to federal regulation. The federal government sets a minimum wage base that must be met by all states, which is currently at \$7,000. Thus, employers only pay UI taxes on the first \$7,000 of each worker's earnings. States have the option of setting a taxable wage base above the federal minimum. While in 1989, roughly two-thirds of the states had done so, the base is not substantially above the federal minimum in most of these states.

Adjustments to the minimum taxable wage base are made in an ad-hoc manner; without legislation specifying an increase, the wage base remains constant. Adjustments have only been made sporadically since the inception of the UI system and inflation has severely eroded its real value. In 1940 the taxable wage base was set at \$3,000 which equalled average annual earnings at that time. After adjusting for inflation, this base would provide roughly \$27,000 worth of buying power today. This is four times higher than the current \$7,000 wage base. Moreover, this system of financing stands in stark contrast to that of the Social Security system, where legislation was first passed to automatically adjust its taxable wage base to keep pace with inflation in 1972. In 1940, the base in the Social Security system also equalled \$3,000. In 1972 the Social Security taxable wage base had climbed to \$9,000 and the UI taxable wage had risen to \$4,200. Today the comparable figures are \$53,400 and \$7,000 for Social Security and UI, respectively.

## FINANCIAL INSTABILITY

As a result of the declining real taxable wage base, the UI system has become financially unstable. Over the years, state UI trust funds have become increasingly likely to experience a deficit during a recession. The same holds true for New York State. In Figure 1 I present New York State's reserve ratio, or the ratio of the balance in the UI trust fund to total annual wages paid in the state, from 1938 through the present. The reserve ratio simply provides an indicator of the health of the UI trust fund where larger ratios indicate larger reserves. As the trust fund runs out, the reserve ratio will approach zero and a negative reserve ratio indicates a deficit in the fund.

A strong cyclical component is apparent in Figure 1, with the reserve ratio increasing during expansions and falling during recessions. This makes sense because during an expansion relatively high employment leads to larger tax revenues and fewer UI recipients while in a downturn relatively high unemployment leads to smaller tax revenues and more UI recipients. However, the overriding trend apparent in Figure 1 is towards lower fund reserves. In fact, the recession of 1975 led to a deficit and forced New York State to borrow funds from the federal government. Prior to this, the trust fund never came close to running out of funds. While it weathered the recession of the early 1980's, reserves were at a perilously low level. In 1988, at the peak of the business cycle in New York State, the reserve ratio was considerably lower than it was in 1973, the peak prior to the 1975 recession. It would therefore appear that if the current recession became more severe and/or prolonged the system may again face bankruptcy.

Like New York, many other state UI trust funds were in deficit following the 1975 recession and changes were made at the time to avoid the same fate in future recessions. The federal government provided a strong incentive to states to keep their UI trust funds solvent by legislating that interest would be charged on future

loans. To reduce UI expenditures, some states restricted eligibility so fewer people could receive benefits. In addition, in a highly inflationary period, many states did not increase UI benefits, leading to a de facto benefit cut. In New York State, for example, the ratio of average weekly benefits to average weekly wages, sometimes referred to as the replacement ratio, fell from 0.326 in 1979 to 0.279 in 1982. To increase revenues, tax rates were increased. In New York, the average employer tax rate rose from 2.3% in 1972 to 3.6% in 1979. Furthermore, the amount of earnings that would be taxable (again, the taxable wage base), was increased; from \$4,200 to \$6,000 in 1977 and again to \$7,000 in 1983 in New York State and several other states in accordance with federal legislation.

However, these adjustments do not address the underlying cause of the financial instability and will only provide temporary relief. The problem rests in a few simple accounting identities:

- (1) revenues collected are equal to the product of the tax rate and taxable wages paid in the state,
- (2) benefits paid out are equal to the product of the number of unemployed workers and the amount of benefits they collect, and
- (3) if the benefits paid out exceed revenues collected, then the balance in the trust fund must fall.

Even in the absence of a business cycle with severe downturns, these simple relationships indicate that the current system of UI financing will hopelessly drift towards insolvency. This is because benefit levels, for the most part, increase to keep pace with inflation, but taxable wages do not since the taxable wage base tends to be held constant. As a result, benefit payments will continually increase more than revenues and the trust fund will continually decline. Short-term benefit reductions, penalties imposed for borrowing, and short-term tax rate increases cannot solve this problem in the long-run.

To illustrate these concepts, consider the example of New York State over the period from 1938 through the present. Figure 2 displays one measure indicating the generosity of UI benefits and one measure indicating the tax burden imposed on workers' wages. The generosity gauge is the ratio of average weekly benefits to average weekly wages. It expresses the fraction of the average worker's wage that would be replaced by the average weekly benefit and is therefore sometimes called the replacement ratio. The tax burden gauge is the ratio of taxable wages to total wages paid in the state. It indicates what fraction of wages earned are taxed by the UI system.

The line with the hollow squares in Figure 2 indicates that the generosity of UI benefits has remained fairly constant over the past 50 years, with perhaps the exception of the middle 1980's. The average weekly benefit would replace roughly one-third of the average worker's weekly wages. The line with the filled-in squares, however, shows that the fraction of wages paid that are taxed by the UI system has fallen dramatically. While fully 90% of all wages paid were taxable in 1938, only around one-quarter are currently taxable. The decline in this ratio is a result of the increase in total wages paid at roughly the rate of inflation while taxable wage growth is restricted due to a constant taxable wage base. The discrete increases in this ratio in 1972, 1978, and 1983 correspond exactly with increases in the taxable wage base. The evidence presented in this figure suggest that while the generosity of the UI system has been largely constant over time, the tax burden falls almost unabatedly. Therefore the simple accounting relationships previously discussed clearly indicate that the New York State UI system is destined to run out of funds sooner or later.

#### REGRESSIVITY

Another concern I have with a taxable wage base which is constant in current dollars is that it leads to an increasingly regressive tax over time. Any tax that is only imposed on a certain amount of income is regressive in that the percentage of a person's income that is paid in taxes decreases as income rises. The Social Security tax shares this feature. Since the taxable wage base is constant, however, in the UI system the tax becomes more and more regressive over time. The reason for this is that as the taxable wage base is eroded by inflation, only poorer people remain taxed on all or most of their income. Similarly, the taxable wage base becomes only a very small part of a high wage worker's earnings as wages grow with inflation. Even though UI taxes are levied on firms, to the extent that the tax burden is shifted onto workers in the form of lower wages, that burden will be greater for low wage workers.

Again, historical characteristics of the New York State UI system will illustrate this point. In table 1 I consider three hypothetical workers: one is a low wage earner (making \$5,000 per year in current dollars), one is a moderate wage earner (making \$25,000 per year in current dollars), and the third is a high wage earner (making \$75,000 per year in current dollars). I use the Consumer Price Index to convert these dollar amounts to comparable levels of purchasing power in 1940, 1950, 1960, 1970, 1980, and 1990. Using the historical tax rates and the taxable wage bases, I estimate the percentage of each worker's income paid to UI taxes in each of these years.

The results presented in Table 1 demonstrate quite clearly the increasing regressivity of the UI tax. In 1940, the low wage earner would have paid 2.7% of his income as UI taxes, roughly three times as much as the high wage earner, who would have paid 0.95%. The low and moderate wage earners would have paid the same percentage. Since the percentage of income paid is lower for the high wage worker, this system would be called regressive. However the system is more regressive by 1970. In that year the low wage earner would pay about eight times the percentage of income relative to the high wage worker and three times that of the moderate wage earner. By 1990 the system has become even more regressive. Now the low wage earner is paying over ten times the percentage as the high wage earner and about four times that of the moderate wage earner.

It may be argued, however, that the regressivity built into the system is appropriate because the UI system is indeed an "insurance" system. Since a maximum benefit level exists, high wage workers receive benefits which represent a lower proportion of the regular wages and should therefore also pay taxes representing a lower percentage of their wages. While there may be some validity to this argument, it is not consistent with an UI tax which becomes increasingly regressive over time. Since the maximum benefit tends to increase roughly at the rate of inflation, taxes should increase correspondingly.

A related argument based on the insurance aspect of the system also may be made. Some have argued that high wage firms should pay less in UI taxes because these firms tend to lay off fewer workers. Hence employees of these firms are less likely to receive benefits. Without refuting this argument, the current institutional environment is well-suited to handle this problem in the absence of a low taxable wage base. The UI system is experience rated in the sense that a firm's tax rate is dependent upon its own layoff experience; firms who lay off more workers are charged a higher tax rate. If low wage firms lay off more workers, then these firms will face a higher tax rate. If this system is not considered adequate, then perhaps some adjustments need to be made to the system of experience rating, not to the taxable wage base. Maintaining a low taxable wage base is a very inefficient way to solve this problem since some low wage firms may have very low turnover and should not be penalized.

#### POLICY RECOMMENDATIONS

While I believe that the problems created by a low taxable wage base fixed in current dollars are severe, I also believe that a solution would be quite straightforward. I will propose, in turn, three potential solutions and sketch the advantages and disadvantages of each one. Each requires an increase in the taxable wage base. Since the federal government sets a minimum base which must be met by each state, federal legislation could provide the means for change.

The first option is to leave the minimum taxable wage base at \$7,000 but would index the base to keep pace with inflation. About one-third of the states currently have indexation provisions which increase the wage base at the same rate as average wages in the state. Such an approach would leave the UI system in much the same condition as it is today, with the same problems of financial instability and regressivity. However, it will halt the trend towards an increasingly unstable and regressive financing system.

The second option would be to pass legislation similar to that in 1972 regarding the taxable wage base in the Social Security system. In that legislation, the wage base was increased in real terms over a few year period and then the wage base was automatically adjusted to increase at the same rate that average annual wages increased. Because of an additional shortfall in reserves in subsequent years, the same sort of legislation was passed in 1977, where the real taxable wage base was increased over a three year period and then resumed indexation to the rate of increase in average annual wages. While the amount of the initial real increase in the UI taxable wage base is a matter of negotiation, such a policy would help stabilize the financial condition of the UI system and would reduce some of the regressivity built into it.

The option that I prefer, however, would be to pass legislation similar to the Tax Reform Act of 1986. The taxable wage base could be abolished so that all income would be taxable by the UI system. States could then lower tax rates charged to firms. If tax rates were lowered enough, such legislation could be made revenue neutral in that tax revenues collected under the new system would equal what they would have been under the old system. However some states may find the need to lower tax rates by a slightly smaller amount, thereby increasing revenues and further protecting against trust fund insolvency. This option would strengthen the financial condition of the UI system and eliminate the regressivity built into the UI tax.

Table 1.—PERCENTAGE OF INCOME PAID TO UI TAXES BY REPRESENTATIVE WORKERS IN NEW YORK STATE, SELECTED YEARS

Year	Worker's Income (in current dollars)		
	\$5,000	\$25,000	\$75,000
1940.....	2.71	2.71	0.95
1950.....	2.70	1.66	0.55
1960.....	2.25	1.12	0.37
1970.....	1.67	0.64	0.21
1980.....	3.49	1.25	0.42
1990.....	1.93	0.54	0.18

Appendix.—STATISTICS ABOUT THE NEW YORK STATE UNEMPLOYMENT INSURANCE SYSTEM, 1938–1991

(1) Year	(2) Ratio of total to taxable wages	(3) Taxable wage base	(4) Average employer tax rate	(5) Reserve ratio	(6) Insured Unemp. rate	(7) Ratio of ave. weekly benefits to ave. weekly wages
1938.....	0.901	3,000	2.93	3.04		0.406
1939.....	0.890	3,000	2.90	3.58		0.422
1940.....	0.891	3,000	2.71	3.85		0.375
1941.....	0.878	3,000	2.70	4.54		0.348
1942.....	0.871	3,000	2.70	5.35		0.336
1943.....	0.859	3,000	2.70	6.80		0.338
1944.....	0.842	3,000	2.70	8.75		0.342
1945.....	0.831	3,000	1.99	9.95		0.388
1946.....	0.817	3,000	1.81	8.55		0.361
1947.....	0.788	3,000	2.17	8.19	4.8	0.322
1948.....	0.762	3,000	1.37	7.44	4.6	0.332
1949.....	0.759	3,000	1.91	6.33	8.2	0.357
1950.....	0.741	3,000	2.70	6.05	6.6	0.339
1951.....	0.720	3,000	2.70	6.44	4.3	0.318
1952.....	0.704	3,000	2.35	6.89	3.8	0.334
1953.....	0.683	3,000	2.06	7.03	3.4	0.341
1954.....	0.665	3,000	1.57	6.69	5.3	0.331
1955.....	0.647	3,000	1.49	6.36	4.0	0.323
1956.....	0.630	3,000	1.49	5.95	3.4	0.337
1957.....	0.616	3,000	1.77	5.60	3.8	0.336
1958.....	0.600	3,000	1.60	4.79	6.6	0.362
1959.....	0.583	3,000	1.99	4.12	4.9	0.351
1960.....	0.570	3,000	2.25	3.81	5.0	0.346
1961.....	0.558	3,000	2.89	3.55	5.8	0.353
1962.....	0.545	3,000	3.44	3.89	4.8	0.345
1963.....	0.533	3,000	3.24	3.99	5.2	0.342
1964.....	0.517	3,000	2.69	3.84	4.7	0.332
1965.....	0.504	3,000	3.04	4.07	3.9	0.331
1966.....	0.490	3,000	2.55	4.28	3.2	0.334
1967.....	0.472	3,000	1.94	4.26	3.0	0.327



Appendix.—STATISTICS ABOUT THE NEW YORK STATE UNEMPLOYMENT INSURANCE SYSTEM, 1938–1991—Continued

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Year	Ratio of total to taxable wages	Taxable wage base	Average employer tax rate	Reserve ratio	Insured Unemp. rate	Ratio of ave. weekly benefits to ave. weekly wages
1968.....	0.452	3,000	2.03	4.29	2.5	0.323
1969.....	0.435	3,000	1.76	4.18	2.5	0.339
1970.....	0.412	3,000	1.67	3.76	3.8	0.338
1971.....	0.388	3,000	2.11	2.88	4.6	0.351
1972.....	0.470	4,200	2.28	2.40	4.0	0.333
1973.....	0.450	4,200	2.78	2.54	3.5	0.321
1974.....	0.423	4,200	2.90	2.33	4.4	0.326
1975.....	0.396	4,200	2.95	1.02	7.0	0.339
1976.....	0.378	4,200	3.41	0.34	5.6	0.323
1977.....	0.360	4,200	3.46	—0.45	4.9	0.315
1978.....	0.445	6,000	3.41	0.43	3.9	0.327
1979.....	0.422	6,000	3.63	0.51	3.6	0.326
1980.....	0.392	6,000	3.49	0.59	3.9	0.314
1981.....	0.367	6,000	3.23	0.82	3.3	0.288
1982.....	0.341	6,000	3.11	0.80	3.8	0.279
1983.....	0.364	7,000	3.11	0.88	3.5	0.279
1984.....	0.351	7,000	3.24	1.11	2.9	0.309
1985.....	0.338	7,000	3.26	1.32	2.7	0.310
1986.....	0.322	7,000	3.25	1.57	2.5	0.305
1987.....	0.308	7,000	2.95	1.80	2.2	0.295
1988.....	0.300	7,000	2.85	2.00	2.0	0.289
1989.....	0.270	7,000	1.80	1.90	2.4	0.324
1990.....	0.270	7,000	1.93	1.50	2.7	0.330
1991 <sup>1</sup> .....	0.270	7,000	1.92	1.20	4.0	0.340

<sup>1</sup> Statistics for 1991 refer to the week of June 17 and were obtained directly from the New York State Division of Employment Security, Office of Research and Statistics.

Source: U.S. Department of Labor, Employment and Training Administration, "Employment and Training Handbook No. 394" and annual updates which are circulated as Unemployment Insurance Program Letters

Figure 1: The Reserve Ratio in New York State, 1938-91'

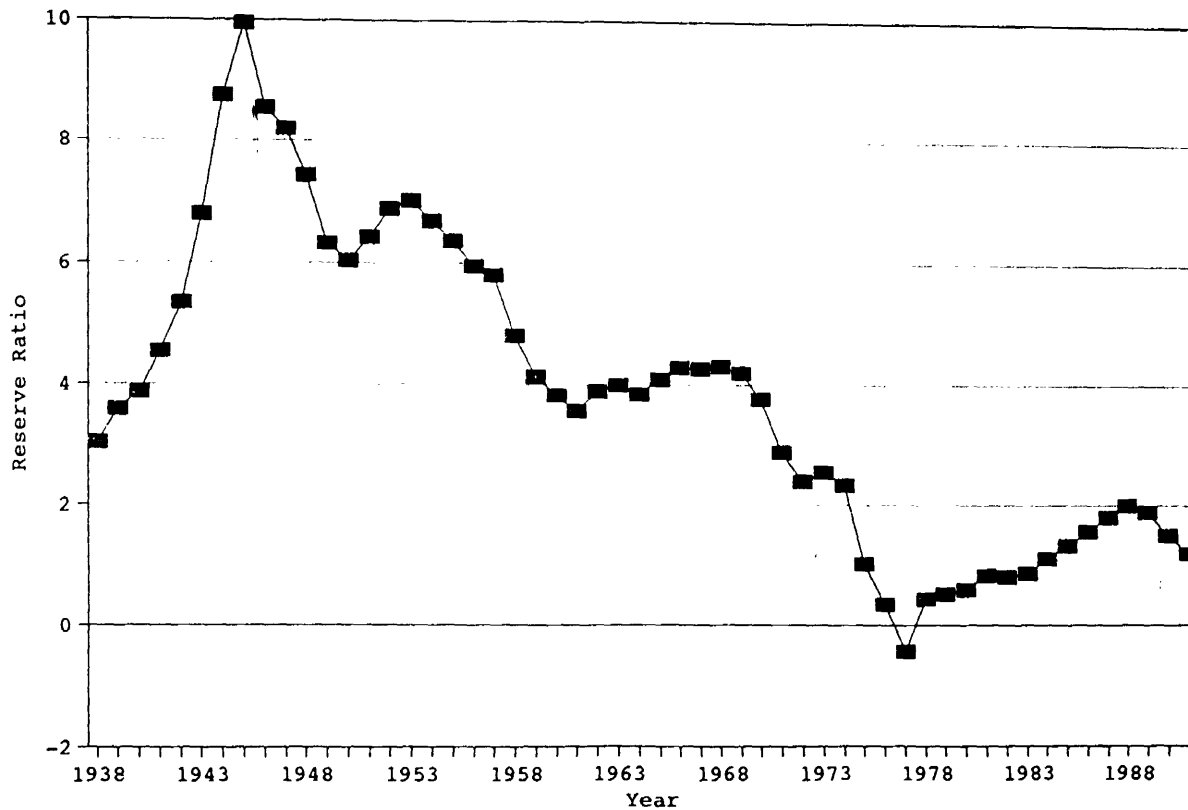
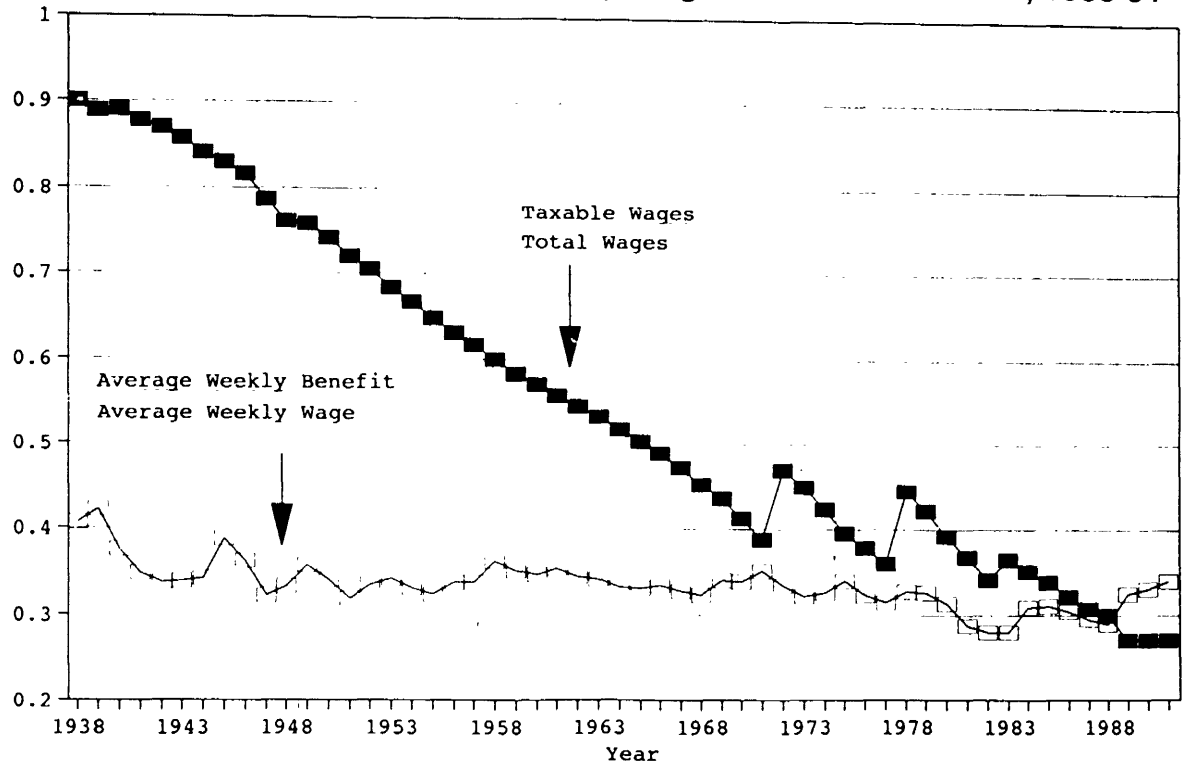


Figure 2: The Ratio of Taxable to Total Wages and the Ratio of Average Weekly Benefits to Average Weekly Wages in New York State, 1938-91



## PREPARED STATEMENT OF SENATOR DANIEL PATRICK MOYNIHAN

On April 23, 1991, I chaired the Senate Finance Committee's hearings on the Unemployment Insurance—or UI—System. Three busloads of unemployed New Yorkers came down to participate. But since they couldn't fit into the hearing room, they had to wait in the halls, unable to hear what was being said. That is why we're holding these hearings today. New Yorkers, including representatives of business, labor and the unemployed, should have the opportunity to participate in our efforts to reform UI.

And I do mean "reform." Reform means "to restore to an earlier good state." The unemployment compensation program used to be in just such a state. Thirty years ago, when I became Assistant Secretary of Labor under the Kennedy Administration, it was one program that seemed to be working well. It met its goal of providing income to people who had a solid attachment to the work force but who, through no fault of their own, got laid off. The U.S. Employment Office was something we were very proud of.

Today, this is different. We find that of all the insurance systems set in place by the Social Security Act of 1935, none has been allowed to deteriorate so much as unemployment compensation.

The unemployment compensation system now covers fewer of the unemployed than ever before—less than half. The Extended Benefit program, established in 1970 to deal with the problem of long-term unemployment during recessions, no longer does its job. Of the workers who will exhaust their regular unemployment benefits this year, most will find themselves without additional protection. This is so despite the fact that we have the money to pay for Extended Benefits—a trust fund reserve of more than \$7.2 billion that should grow by roughly \$1.3 billion this year. We are building up a surplus during a recession, the very time when we should be drawing down the surplus to pay for benefits.

Funding for the administration of unemployment benefits has been inadequate. In New York State, the number of unemployment insurance offices dropped from 160 to 89 in the past year. Those that are open are a nightmare for clients. Long lines to file claims, long waits—up to six or seven weeks—to receive benefit checks.

All this must change. I know that New Yorkers have been working hard to do so. As I said, some of them got up during the pre-dawn hours of April 23 to travel to Washington in order to make themselves heard on this issue. And they did. I was able to meet with some of them that day and came away from the meeting with an even greater sense of resolve.

On June 13, 1991, we in the Senate introduced "The Unemployment Insurance Reform Act of 1991." The bill creates a new supplemental unemployment insurance program, reforms the existing Extended Benefits program, establishes a special reserve fund for administrative expenses, and changes the way servicemen are treated under the UI system. It is time we made some true reforms. The unemployed are entitled to no less.

## PREPARED STATEMENT OF GEORGE PROPER

I wish to thank this committee for the opportunity to speak in reference to the crisis facing the unemployed persons in the recession economy of 1991. I would like to have seen a greater openness on the part of the committee to hear from the unemployed in larger numbers than are being allowed to testify this morning. I realize that time and space are a problem, but allowing only two of the unemployed of this state to come forth should have been reviewed and considered insufficient to obtain a true picture of the pain being inflicted on many dedicated and diligent workers of our country.

I will try to convey to the committee just how difficult it has been to search for employment by many of us. One of my friends in the Coalition has been out of work approximately 10 months and having received her final check, she is utilizing her small savings, which will run out shortly, to meet her bills. She has continued to seek employment as a bookkeeper and has found that when she has been able to acquire an interview, she has been informed that 70 applicants have applied for the one position.

Just yesterday in *Newsday*, the number of unemployed in April 1990 was listed as 26,600; while April 1991 was 42,600 in just Suffolk County. That is an increase of 60.2% in the number of unemployed. This year alone in New York State, from January through March, 58,500 have been removed from the role of the unemployed because they have utilized all of their 26 weeks and now must face unemployment with no benefits at all. Last year, this total was 200,000.

As to my own story, it begins further back in time. In 1984, I was employed as a Human Resources Director for an airline catering firm, earning \$38,000 per year. The company was sold to an other conglomerate which found my services unnecessary. At that time, I made over 400 attempts to locate a position as a human resources manager to no avail. After being out of work for eight months, I was declared a dislocated person and was offered the opportunity to be retrained in the computer typesetting field. Starting over, earning 13,000 a year, I attempted to rebegin my life. I continued to apply for positions in my field of human resources; however, wherever I went the answer was the same. "Overqualified." At that time I was 50 years old. Now having worked for six years as a typesetter. I have been terminated from two jobs. In 1988, a reduction in force, and in 1991, elimination of the whole department to permit the contracting out of functions four employees performed. Last year, I earned \$30,000 per year.

Since January, 1991, I have made over 600 attempts to locate work in human resources, or typesetting. I have even sought a position in the Diocese of Rockville Center. Since I am an ordained deacon in the Catholic Church and in December, 1990 I obtained a master's degree in theology.

I have with me 50 responses in which my credentials and experience are lauded and praised by firms who politely tell me that they had to choose someone more suitable to their needs. Yes, not 57 years of age. I have contacted every employment agency on Long Island. I have contacted every major firm in the metropolitan area. I have contacted every typesetting and printing firm.

I went back to Suffolk County to investigate another field of training. I was advised that since I had two months of freelance work. I was not eligible to be retrained.

So you see, my needs as a human being are being slowly ignored. 26 weeks for those of us who are in my age category is totally insufficient to help us face the world in which we reside. I only have eight weeks left. That is because I found work freelancing for two months. However, I will be very shortly charging that firm with age discrimination.

But I speak not only for my age category, I speak for every age group. Another friend of mine is 21. He has experience in warehousing and has been out for over six months. Whenever he seeks a job, he's told his experience is too light.

As to the passage of the Downey Bill HR 1367. The politics that has been played with this bill has been outrageous. The arguing over the percentages, and the financing of the fund is the issue. What about the lives of the thousands of the unemployed in this country who are facing destitution. For us, this is just as serious as the Great Depression was to our grandparents.

With 9.2 billion dollars in the trust fund for Extended benefits, there is absolutely no reason to deny extended benefits to any one. Other countries give more than 26 weeks—some even give 52 weeks a year.

I have worked for 37 years and also dedicated my life to aiding those who are of my faith, which I thank God has been able to maintain me in this time of challenge and denial. But I am rapidly approaching bankruptcy and loss of everything. I'm not saying that extended benefits will guarantee this not occurring, but it will help in giving me and thousands of others additional time to find the job each of us needs to live in this world.

To summarize my statement, we'd like you to consider the following:

- Pass the Downey Bill or one similar to it.
- We ask the Democratic party to publicly proclaim its support for the President to declare an emergency to release the Extended Benefits Trust fund immediately.
- We'd like to see this committee consider holding hearings in other parts of the state, such as Long Island to permit other unemployed people to convey their story.
- Greater support for the unemployed such as:
  - Improved re-training
  - Health Insurance
  - Tougher control of sexual and age discrimination

Once again I would like to extend my own appreciation for the opportunity to address this committee.

---

#### PREPARED STATEMENT OF NELSON VALENTIN

My name is Nelson Valentin and I have been out of work since October 6, 1990. I live in Brooklyn New York. I was laid off after working 8 years at Thom McAnn shoes. I came here ten years ago from Puerto Rico looking for work, because there

was no jobs in my country. I have college credits in business administration, and I have helped raise a family along with my wife. We have three daughters. I have previously testified on the need for an extension of unemployment benefits before the House Ways and Means Committee Human Resources Sub-Committee in March, when I was down to my last three unemployment checks.

I want to tell you what my life has been like over the last year, not only because I have suffered but because what has happened to me is happening to millions of other hardworking people trying to provide a decent life for themselves and their families.

I used up all 26 weeks of my unemployment benefits. I collected my last check on April 6. I have tried to find a stable job, but all I can find are jobs where I work for one week and then get laid off the next week. In the meantime, my ability to pay my bills continues to go downhill.

The hard fact that this government refuses to acknowledge is that there is no work, and more people are losing their jobs every day. When jobs are available, dozens and even hundreds of people apply. I know. I am out there looking.

As meager as my unemployment check were they at least allowed us to survive during this period. I do not know how we are going to pay our bills unless I find stable employment or we get some help.

I would rather be working than testifying before you today, and I would rather be working than having to fight for unemployment benefits. But as far as I am concerned these are benefits due me, not charity. I know that my employer had to pay an unemployment insurance tax on my salary. And now, when I need that insurance, I am told that there is only 26 weeks of benefits available to me. I know that in the past, that tax provided for as much as 65 weeks of unemployment benefits. I also know that there is almost \$8 billion in a special fund set aside for 13 more weeks of unemployment benefits.

At first I did not fully understand why these benefits were cut, or this money not used. I think I do now. It is clear to me that without these benefits, people like myself are forced to take whatever job comes along out of sheer desperation. In my previous job, I was making over \$455 a week. Over the last two months I have worked for half of my previous salary—about \$225. It is clear who is benefitting—and it is not us, the working people.

The Bush administration says that things are not bad enough to justify giving more weeks of benefits. I have a question to ask of President Bush: how can you justify denying us our benefits when you allocate billions for the Savings and Loans industry and billions for war in the Gulf? How can you deny us this protection when that part of the unemployment insurance tax intended for extending unemployment benefits has accumulated 8 billion dollars. Mr. Bush—the money is there. Why can't it be used?

Senator Moynihan—I was present when you met with over 40 of us on April 23 in Washington DC. I don't understand why it took two months before you could find time to set up this hearing. During this time, over 500,000 unemployed people used up their last unemployment check.

I also don't understand why this hearing makes believe there is a need for more investigation into the problem. While we appreciate the opportunity to address this hearing, we don't need more investigations, we need action to extend unemployment benefits.

The question is—what are you going to do about it, Senator Moynihan?

As a member of the steering committee of the New York Unemployed Committee, and on behalf of the more than one million people who will exhaust all their unemployment benefits over the next few months we urge you to act quickly.

