
Special Report



Washington Research Council

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Getting Back to Work: Reconsidering Unemployment Insurance in Washington

The unintended consequences of social welfare programs have recently come under scrutiny. Over time, the economic and social costs of these programs force an accounting. Unemployment Insurance (UI), inevitably, faces questions similar to those framed regarding Social Security and welfare.

The Washington Research Council begins that accounting here with an examination of the UI system in Washington, an exploration of the costs and benefits of the current system for the businesses and individuals directly affected by UI, and a demonstration of the savings possible through system reform.

Welfare and UI provide an interesting contrast. As originally conceived, Aid to Families with Dependent Children (AFDC) was designed to support children and their widowed mothers who were presumed to be unable to support themselves. Mothers were not expected to work and AFDC thus provided a permanent source of support for the family until the children were grown. The beneficiaries of UI were – are – believed to be capable of supporting themselves. As their unemployment was presumed to be involuntary and temporary, they required insurance against the loss of a job until reemployment.

The financing of the programs reflected the different emphases. Welfare, like some other U.S. social “safety net” programs (e.g., Medicaid and Supplemental Security Income), is funded out of general public revenues. UI, like Social Security, is funded from payroll taxes. Such programs adopt an explicit insurance model and benefits are not means tested, rising with the amount of the beneficiary’s income that has been subject to the tax.

Briefly

Washington’s extraordinarily high UI costs could be reduced by one-third if the state performed at the national average on each of three primary cost factors: the number of claims paid, the duration of time a beneficiary receives benefits, and the benefit level. Costs and taxes could drop even lower if the state were to adopt policies similar to Oregon’s JOBS Plus program.

Generous benefits, little case management, and limited job search requirements combine to reduce the motivation of the unemployed worker to swiftly rejoin the labor force. Research has documented reemployment can be accelerated by changing the incentives associated with UI.

This *Special Report* identifies the benefits that can be derived from relatively minor policy changes (e.g., requiring attendance at job training programs) to more aggressive approaches (e.g., attaching benefits to public service work). Getting unemployed workers back to work, reducing regressive UI taxes, and creating a more competitive business climate will be the result.

UI as an Insurance Program

As insurance allows individuals to lay off the risks that they face in the course of their lives it disconnects them from the consequences of their actions. Insurance providers, whether private or public, are legitimately concerned with the ways in which the presence of insurance may increase the likelihood or severity of a compensable "accident."

The incentives created by insurance can magnify the risks borne by the insurer. To reduce these risks insurers follow two broad approaches: risk sharing and case management. The field of health insurance provides examples of both approaches.

Co-pays and deductibles are two forms of risk sharing commonly found in health insurance policies. Under co-pay the insured bears a fraction of the cost of care, for example 20 percent. With a deductible the insurer bears costs only above a threshold. Risk sharing mechanisms try to manipulate the incentives that the insured faces.

Under a case management approach the insurer tries to influence or directly regulate the insured's behavior. In the health insurance arena, managed care provides a good example.

UI makes use of both risk sharing and case management. For example, the amount of salary replaced by insurance and the duration of benefits are both capped, shifting a portion of the risk of unemployment onto the recipient. Behavior is regulated by provisions that disqualify workers who have been terminated for cause, quit voluntarily or refuse suitable work, and require individuals to be actively seeking work.

These quasi-insurance programs present a more difficult challenge for policy makers. Recipients often feel entitled to compensation – "after all, I paid for this benefit" – and the implicit contract has a powerful hold on lawmakers. In fact, the link between premium payments and benefits received is imperfect. While this is true in all insurance programs, with government plans the moderating discipline of the market is absent, leaving program elements subject to political influence. Public policy considerations – appropriately, perhaps – remove the program from a pure insurance model (see *UI as an Insurance Program*).

Incentives (and public policies) matter

This analysis recognizes that incentives influence behavior, a truism documented exhaustively in economic and UI literature.

This analysis recognizes that incentives influence behavior, a truism documented exhaustively in economic and UI literature. Three factors determine the cost of providing UI: the number of claims paid, the benefit level, and the length of time a recipient receives benefits. All three factors can be influenced by public policy. Washington ranks above the U.S. average on each. If the state were simply average on each factor, employees and employers could realize a collective savings which would have amounted to \$241 million for FY98, about one-third of total program costs, as will be demonstrated below.

First, however, UI should be placed in context.

Unemployment, for many (not all) people, creates a period of dependence. The unemployed person relies on others - on friends and family, on churches and charitable institutions, on government - to provide financial, emotional, and material support. Ideally, each element of the support network attempts to reconnect the unemployed person with the workforce. As has become apparent in other "safety net" programs, however, UI contains incentives that delay reemployment and unnecessarily create costs for businesses and workers.

When Congress created the system as part of the Social Security Act of 1935¹, it was intended to provide temporary, partial wage replacement to workers unemployed through no fault of their own. UI was an

integral component of the sweeping New Deal program. Other familiar programs included Old Age Insurance, Old Age Assistance, and Aid to Dependent Children to support children destitute due to the death of a parent. Unemployment insurance was intended to provide support for individuals who were attached to the labor market but who were unable to find work.

Welfare reform began with a stark reappraisal of the program's underlying assumptions. Policymakers rejected the notion that welfare was permanent family support. Parents, including single moms, are now expected to work. The policy shift recognized that the welfare system, as it had expanded in the Sixties, incorporated incentives that led to socially unproductive behavior. By encouraging dependence, the system harmed those that it intended to help. In 1996, the U.S Congress completely overhauled welfare, and a new program, Temporary Assistance for Needy Families (TANF), replaced Aid to Families with Dependent Children (AFDC). Under TANF, welfare recipients are expected to become self sufficient; for most, welfare should only provide temporary aid. The reformed welfare system emphasizes self-sufficiency and work.

Successful welfare reform programs promote labor force attachment for their clients. In particular, they use aggressive case management to move them into the labor force. Unemployment insurance programs have traditionally served clients who already were attached to the labor force and have not aggressively managed cases. As former welfare clients with only minimal attachment to the labor force lose jobs and qualify for unemployment, it will be important that the UI system maintain and reinforce the incentives that led them from welfare to work.

In age and education, the profile of heads of household leaving welfare increasingly resembles the UI population (see *Demographic Characteristics*). Other data indicate these former welfare recipients are older and better educated than those remaining on welfare, indicating they were better able to take advantage of the job market in the early stages of welfare reform.

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Demographic Characteristics			
<i>Of Clients Leaving Welfare</i>		<i>Of UI Beneficiaries</i>	
Gender			
Male	8%	Male	61%
Female	92%	Female	39%
Race/Ethnicity			
White	72%	White	81%
Black	8%	Black	3%
Hispanic	10%	Hispanic	11%
Native American	5%	Native American	1%
Asian	3%	Asian	4%
Other/Unknown	4%		
Age			
Under 20	4%	Under 21	2%
20-29	41%	21-24	6%
30-39	38%	25-34	24%
40-49	12%	35-44	29%
50 and over	3%	45-54	25%
		55-59	8%
		60 & over	7%
Educational Attainment			
No High School		Grade School or Less	9%
Diploma or GED	19%	Some High School	8%
High School Diploma	14%	High School Graduate/GED	41%
GED	20%	Some College	24%
Some College	32%	Two-year degree	4%
Two-year degree	9%	Four-year degree or more	14%
Four-year degree or more	7%		

Source: DSHS Economic Services Administration. Source: Employment Security Department
 Columns may not add to 100 due to rounding

UI and Economic Competitiveness

Economic research finds that state tax levels are an important consideration when businesses choose where to locate their operations.² Similarly, the Washington Roundtable's study of the state's business climate observed that "no single factor is more critical to Washington's ability to compete than business costs."³ In the majority of the seventeen cost-of-business factors that the Roundtable examined, Washington ranked in the bottom quarter nationally. Unemployment Insurance was one factor for which Washington's costs were particularly out of line.

High payroll taxes send a negative signal to businesses evaluating a state's business climate.

Two aspects of the cost structure are of particular concern today: high average tax rates and the allocation of the tax burden. Each is examined briefly below.

High Average Tax Rates

The magnitude of UI taxes long has been of concern to the business community in Washington. As Figure 1 shows, the average tax rate for Washington has exceeded the national figure in every year since 1967.

High payroll taxes send a negative signal to businesses evaluating a state's business climate. (This is true even if it is their employees who ultimately bear the burden.)



FIGURE 1

Economists generally agree that taxes imposed on employer payrolls are in large part shifted onto employees in the form of lower wages. In a recent survey, labor specialists at the 40 leading university economics departments in the U.S. were asked their best estimate of the share of payroll taxes borne by employers in the long run. The median value given by the 65 respondents was 20 percent; the mean value, 25.6 percent.⁴

The UI tax is a distinctive form of payroll tax in the way that its rate varies across employers. A recent analysis by Anderson and

Meyer distinguished between the average tax rate in a labor market and the employer specific deviations from the average. Anderson and Meyer estimated that more than seventy percent of the average tax was passed on to workers in the form of lower wages. Eighty percent of the employer specific deviations from the average, however, were borne by employers. Thus, Anderson and Meyer conclude, "most of the market level tax is born

by the worker,” while at the same time variations in tax rates have real consequences for employers.⁵

Workers thus bear a substantial fraction of the cost of providing unemployment benefits and have a real stake in the efficient operation of the system.

Experience Rating

A second controversial issue within the business community concerns the distribution of the tax burden across firms. State UI systems across the U.S. are experience rated (see *UI Tax Rates*). Individual employers' tax rates vary depending upon the past history of claims by their employees. Some have argued that the Washington system places too high a tax burden, relatively, on stable employers. These businesses, then, effectively subsidize the employees of the businesses with less stable employment. The 1998 Legislature funded the *Unemployment Insurance Tax Evaluation Study* to address these concerns. A final report is due late in 1998.

The original architects saw unemployment prevention as a primary purpose of the federal UI system. Experience rating was believed to work toward this end by rewarding stable employers with lower tax rates.

Repeated reliance on UI can be characteristic of some occupations and is often cited in discussions of experience ratings. The possibility of repeated use is a prevalent feature of the unemployment insurance system. A central question relative to UI is whether it insures against unexpected events or subsidizes firms and workers engaged in temporary layoffs.

Of the 750,000 individuals on the UI rolls at least once between 1993 and 1997, roughly one-third had appeared on the UI rolls in at least two years. Nearly 2% had appeared on the UI rolls in each of the five years analyzed. In a recent study on the repeat use of UI, Meyer and Rosenbaum⁶ found that: 1) most repeat recipients are concentrated in seasonal industries, 2) they are laid off by the same employer each time, 3) middle-aged and high-paid workers are more likely to be repeat recipients. The final point refutes commonly held beliefs that workers with bad jobs are the ones who typically encounter

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UI Tax Rates

In most cases, Washington uses “experience rating” to assign a UI tax rate to an employer.

A primary determinant of this tax rate is the employer's “benefit ratio,” i.e. the four-year average of benefits paid to its former employees as a percentage of the its payroll. Employers are ranked by their benefit ratios and then grouped into twenty UI tax rate classes. Each class represents roughly five percent of aggregate wages. A tax rate schedule then determines the rate for each class. Employers with higher benefit ratios are assigned higher tax rates.

There are seven different tax rate schedules. In any year the actual schedule used is determined by the size of the unemployment trust fund relative to total covered payroll. That is, as the trust fund balance increases, taxes are reduced.

The unemployment fund is currently roughly \$1.52 billion, which is 2.55% of payroll, dictating the use of rate schedule A, which ranges from .48% for a firm with an excellent experience rating to 5.40% for a firm with a poor experience rating.

Currently, the average tax rate for qualified employers (i.e. those who have established an experience rating) is 2.24%. Several types of firms face tax rates that are not based on their experience. Primary among them are firms that are delinquent in their tax payments and new firms.

In addition there is a group of “reimbursable employers” (nonprofit firms and government agencies) who elect not to pay UI taxes but instead to reimburse the state for any benefits paid to their former employees.

repeated spells of unemployment. Further, they believe that their results suggest that rather than insuring individuals against involuntary unemployment spells, a substantial portion of UI resources are used to subsidize some firms and industries. The authors argue that: "Tighter experience rating would reduce this aspect of repeat use, but in any case would reduce the subsidies to the firms and industries engaged in temporary layoffs." (See *Seasonal Industries* for a related discussion.)

Seasonal Industries

Fourteen states have special provisions relating to the payment of benefits to those who work in seasonal industries. In general, these provisions only credit wages earned in seasonal work towards unemployment benefits within that season. The inability to work out of season in the seasonal job is not a risk that these state plans choose to insure against.

Washington does not limit seasonal benefits.

Washington employers, however, are not charged for benefits paid to workers deemed to have *marginal labor force attachment* (MLFA). Under MLFA, the benefits charged to an employer in a quarter are capped at the maximum of the amounts that the unemployed worker earned in the corresponding quarters during the preceding two years.

As a result the employers of seasonal workers who are regularly unemployed in the off season will be relieved of charges in the off season.

MLFA is a unique feature of Washington's UI system.

Most states use one of two broad methods to experience rate unemployment taxes. The reserve ratio method bases an employer's tax rate on the cumulative difference between the taxes paid in by the employer and the benefit payments charged against the employer. This account balance is divided by a measure of the wages paid to employees by the employer to yield a reserve ratio upon which the business's tax rate is based. The benefit ratio method uses the ratio of benefits paid to employee wages over some period (typically three years, Washington uses four) to determine the employer's tax rate.

In no state does experience rating work perfectly. That is, no state captures from every employer the costs of all the benefits paid to its employees. Those benefits that are not effectively charged back to the worker's employer are termed socialized benefits. The socialized benefits are borne by employers as a group. Socialized benefits fall into three classes.

Noncharged benefits. These occur in situations where the state policymakers have decided that employers should not be held responsible for the benefits paid to former employees. For example, in certain cases an employee who voluntarily quits a job will be allowed to collect unemployment benefits and these benefits will not be charged against the employer.

Ineffectively charged benefits. When benefits charged to an employer are substantial, they may exceed the amount that can be collected if that employer is taxed at the maximum rate.

Benefits charged to inactive accounts. In some cases employers of individuals who draw benefits are no longer active, and so are not taxed.

Preliminary results from the Unemployment Insurance Tax Equity Study presented at a meeting in Olympia on October 16 suggest that socialized costs in Washington are above the national average, and that these excessive costs are concentrated in noncharged benefits and benefits charged to inactive accounts.

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High Costs Reflect Benefit Levels

Washington UI benefits are among the nation's most generous. The National Foundation for Unemployment Compensation & Workers' Compensation publishes an annual report⁷ that details how states compare on several aspects of unemployment compensation. Washington's rankings in the major categories of comparison are uniformly high. The range of weekly benefits, from a minimum of \$82 (2nd highest) to a maximum of \$384 (4th highest), stands out, as does the maximum aggregate benefit (the most that can be collected in a single period of unemployment) which ranks 2nd to Massachusetts. That ranking, of course, follows from having a high maximum benefit coupled with the nation's longest maximum duration period of 30 weeks during which a recipient can collect benefits. Most states have a 26 week maximum. (See related discussion, *Regular and Extended Benefits*.)

Regular and Extended Benefits

Under normal conditions, benefits for a single spell of unemployment in Washington are limited to thirty weeks and a maximum of one-third of wages earned in the recipient's one year base period. Washington and Massachusetts are the only two states that allow individuals to receive regular UI benefits for 30 weeks. In Delaware the maximum is 24 weeks; in all other states, 26 weeks. During times of high unemployment (a determination made according to a formula established under federal law), the Extended Benefit Program increases the maximum duration. Extended Benefits are funded equally from the state UI Trust Fund and the federal government. Typically, Extended Benefits lengthen the maximum duration to 39 weeks.

These above-average benefit levels result in above-average costs. After a brief overview of the pattern of unemployment in Washington, the critical factors influencing costs are examined in more detail.

Figure 2 shows the civilian unemployment rates for Washington for the period 1967-1997 and the portion of these who received unemployment benefits. On average, about 45 percent of the unemployed received unemployment benefits. Those not receiving benefits included new entrants to the Washington labor market (including in-migrants), those whose previous employment had been in jobs not covered by the UI system, and those who had exhausted their UI eligibility.

Figure 3 compares the civilian unemployment rates for Washington and the nation as a whole. The two series track fairly closely, although the effect of the "Boeing Bust" can be seen clearly in the early 1970s. It is conventional wisdom that unemployment rates are relatively high in Washington because of the importance to the state's economy of

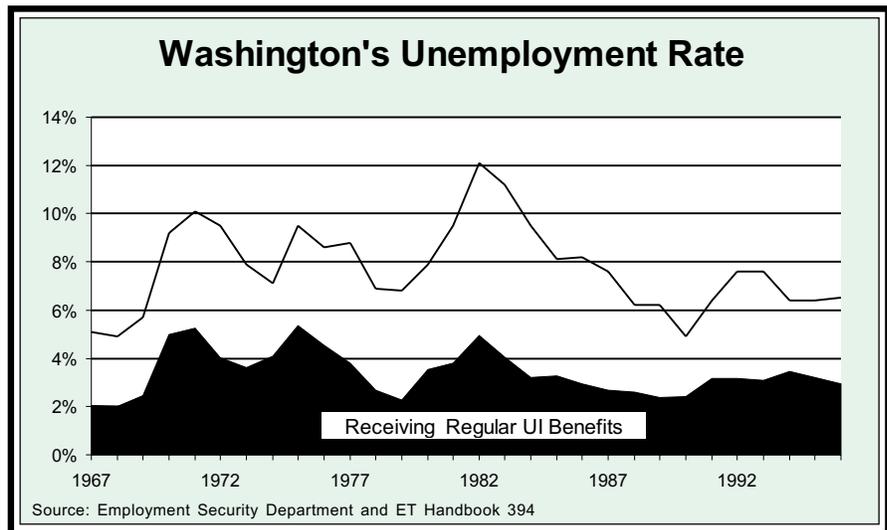


FIGURE 2

Civilian Unemployment Rates

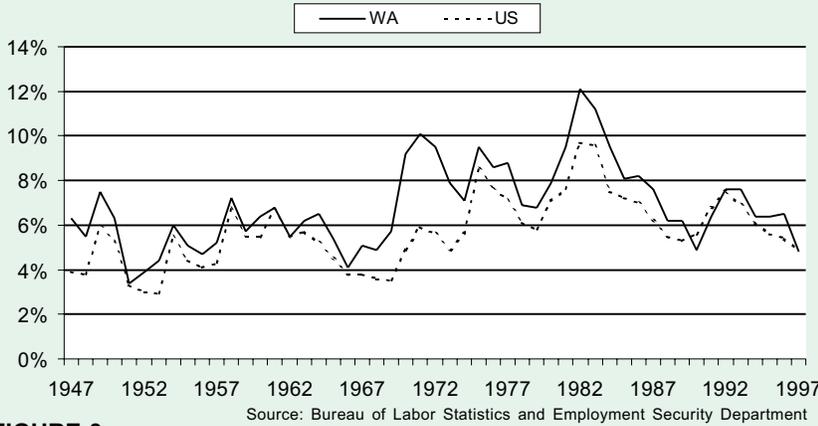


FIGURE 3

Regular Benefits as a Share of Total Wages in Taxable Employment

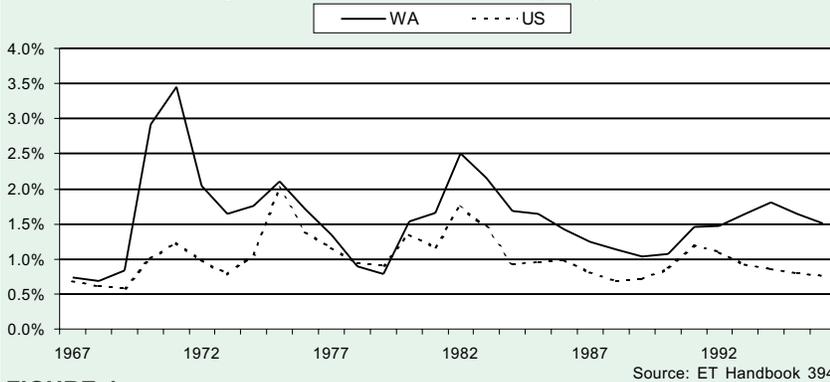


FIGURE 4

First Payments Relative to Civilian Labor Force

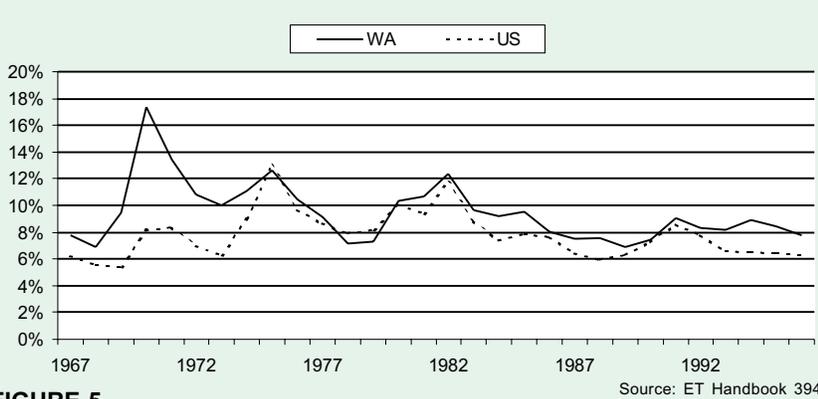


FIGURE 5

seasonal industries such as forestry, fishing and agriculture (and the associated manufacturing and processing industries). Over time, however, the share of state employment represented by these industries has fallen. While Washington's unemployment rate never fell below the national rate during the period 1947-1989, in 1990, 1991, and 1997 the state rate was less than the national. Data developed by the Office of the Forecast Council indicate that by 1995 Washington's employment was less seasonal than that of 21 other states.

Washington's system has paid out more in benefits relative to wages in covered employment than the national average, as can be seen in Figure 4. In only one year between 1967 and 1996 (1980) did Washington's benefits as a share of total wages fall below the national figure. And in the 1990s, when the state's unemployment rate tracked the national figure more closely than it had in the past, the state's benefit-wage ratio continued to be well above the national ratio.

The amount that the state pays out to the unemployed will depend upon the number of unemployed persons who qualify to begin receiving benefits, the average length of time that these people remain on the unemployment rolls, and the average weekly benefit amount.

Claims Paid. Figure 5 shows the number of first payments for UI relative to the civilian labor force for Washington and for the nation as a whole. From 1967 through 1996, this rate was higher in Washington than in the nation as a whole in all but three years. Although Washington's unemployment rate

fell below the national rate in 1990 and 1991, the rate of UI initiation was higher.

Duration. Figure 6 shows the average duration of unemployment benefits for Washington and the nation. There are clearly cyclical swings in duration. For both the state and the nation as a whole there is clearly a long term upward trend. Despite the convergence between the state and national unemployment rates, Washington's duration has remained significantly above the national average.

Benefit Levels. Figure 7 shows the ratio of the average weekly benefit to the average weekly wage for the state and the nation. Since 1980, this relative benefit has averaged 38.6 percent in Washington and 35.8 for the nation.

Thus in all three dimensions (see Figure 8) – the rate at which people in the labor force enter onto the UI rolls, the length of time that they stay on the rolls, and the relative benefit that they receive – Washington's experience exceeds that of the nation as a whole. And the associated costs are substantial.

Between 1990 and 1996, the number of first payments as a share of the civilian labor force in the nation averaged 15.7 percent below Washington. The average duration for unemployment for the nation was 14.0 percent below that for the state. Over the period, the average benefit replacement rate for the nation was 8.2 percent below that for the state. If Washington had simply achieved these national averages, UI costs would have been reduced by 33.4 percent, for a total of \$241 million for FY98 (see *Calculating the Savings*).

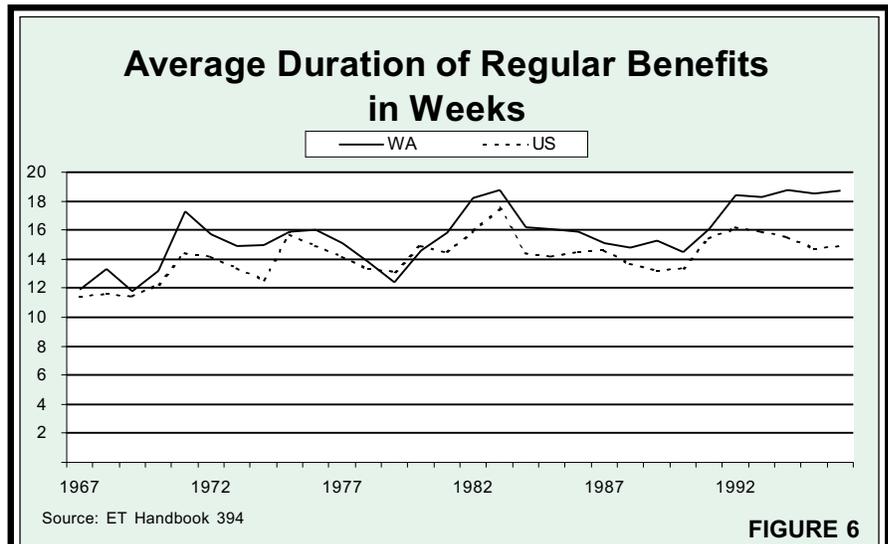


FIGURE 6

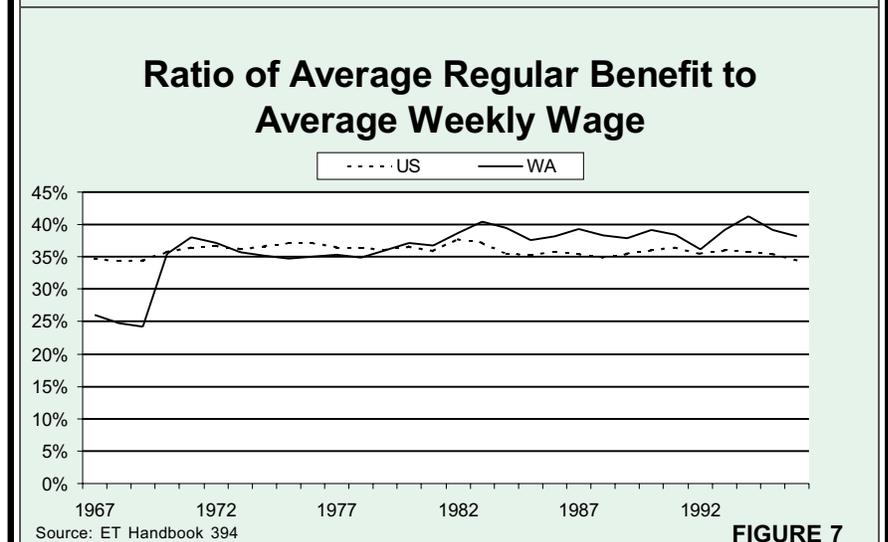


FIGURE 7

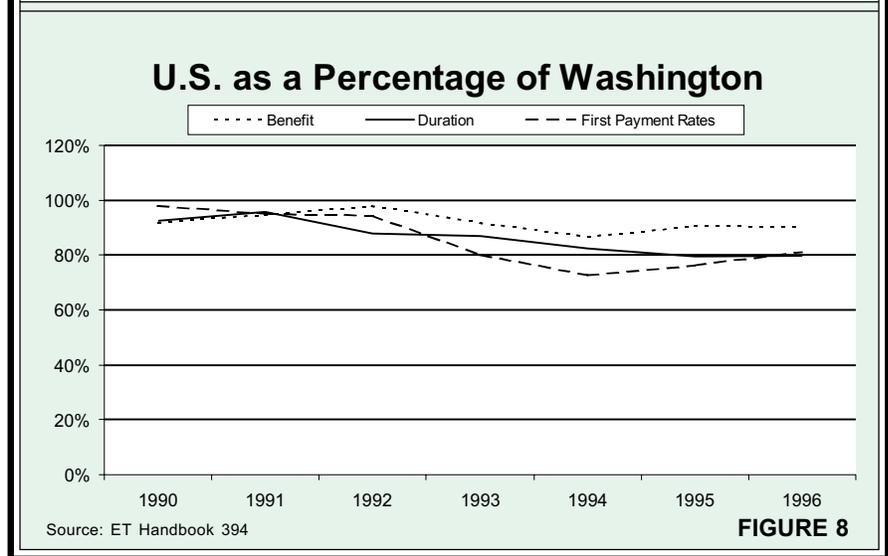


FIGURE 8

Calculating the Savings

The rate at which individuals go onto the UI rolls, the number of weeks that they stay on the rolls, and the average weekly benefit that they receive interact to determine the cost of the unemployment insurance system. Between 1990 and 1996, the national experience with respect to each of these factors was lower than that of Washington state. Had Washington matched the nation, the state's payment of benefits on average would have been only 66.6 percent as great over the period. A reduction of this magnitude would have saved the UI system \$241 million in fiscal year 1998.

The calculation begins by expressing the national averages for initial payments (IP), duration (D), and weekly benefits (B) as a percentage of Washington's experience in each category. Multiplying these percentage yields the combined effect (CE) attainable.

$$84.3\% \text{ (IP)} \times 86.0\% \text{ (D)} \times 91.8\% \text{ (B)} = 66.6\% \text{ (CE)}$$

$$66.6\% \text{ of } \$721 \text{ million in UI payments in FY98} = \$480 \text{ million}$$

$$\$721 \text{ million} - \$480 \text{ million} = \text{a savings of } \$241 \text{ million}$$

Impressive as the figure may appear, these savings may understate what can be achieved through system reform. An alternative scenario, developed by economist William Conerly, demonstrated that an extension of the JOBS Plus subsidized employment program to UI in Oregon could reduce Oregon's expenses by 68 percent, through reduced usage of unemployment insurance, shortened spells of unemployment benefits, and reduced layoffs.

At the request of the Washington Research Council, Conerly replicated his calculation for Washington. The savings were even more dramatic, as he estimates an expenditure reduction of 67 percent (see *Oregon May Hold Key to Successful UI Reform*).

In addition to increasing the cost of doing business in Washington - depressing real wages and placing the state at a disadvantage in the competition for business location and expansion - generous benefits work against aggressive job search and speedy reemployment. The loss of benefits becomes a cost of taking a job.

The central issue involves the degree to which unemployment is voluntary, a response to the incentives built into the system. If incentives don't matter, if individuals are victims of unemployment with little or no recourse, then changing the incentive structure will not alter their job-finding behavior (as opposed to their job-seeking behavior). The evidence is to the contrary. Incentives matter, behavior changes.

In addition to increasing the cost of doing business in Washington - depressing real wages and placing the state at a disadvantage in the competition for business location and expansion - generous benefits work against aggressive job search and speedy reemployment. The loss of benefits becomes a cost of taking a job.

Unambiguous research demonstrates the impact of benefits on job search efforts and, ultimately, reemployment. A series of studies has documented that:

- aggressive case management results in lower net costs (higher administrative costs were offset by shorter duration on UI and higher earnings)⁸;
- high UI payments relative to previous wages increase the average duration of unemployment and increase the percentage of unemployed who collect benefits;⁹

- those who are eligible for UI have longer periods of unemployment than those not eligible¹⁰;
- paying UI recipients bonuses for finding work speeds up reemployment¹¹; and
- more intensive job-search requirements speed up reemployment.¹²

What's important about these studies is not simply that the techniques work; equally important is the demonstration that – at some significant level – unemployment becomes voluntary for some UI recipients. When it can be shown that incentives, often rather minor, alter the duration of the unemployment experience, then it must be recognized that public policy can be altered to ensure shorter periods of unemployment and reduce the costs of the system.

Unemployment insurance is a federal-state partnership. Each state operates a system of its own design under broad federal guidelines. States face “a fundamental trade-off between two important factors: (1) the need to provide unemployed workers with benefits that are ‘adequate’ . . . and (2) the need to minimize the disincentive to rapid reemployment implicit in the provision of UI benefits,” according to Paul Decker. “The intent to provide adequate benefits tends to encourage more generous ones . . . However, more generous benefits tend to strengthen the reemployment disincentive.”

In Washington, high benefit levels appear to be providing incentives to prolong detachment from the work force. To alter the incentives, lawmakers can select from among an array of policies, ranging from rather incremental modifications in current practice to significant changes.

Oregon May Hold Key to Successful UI Reform

Oregon's trend-setting welfare reform effort, known as JOBS Plus¹, may provide the model for successful reform of the UI system as well. Caseworkers can use JOBS Plus to move clients with minimal experience and skills into the workforce. The program takes money that otherwise would fund cash benefits and food stamps and subsidizes a new private sector job. Welfare recipients must take a job when one is offered, and JOBS Plus provides the offers.

Oregon has altered the incentives faced by welfare applicants. JOBS Plus is both a carrot and a stick, guaranteeing jobs to those who are willing to work and cutting off benefits to those who are unwilling. With changed incentives, behaviors change. Prospective welfare recipients learn about the new requirements when they apply; 40% of the new job placements are to applicants who get their job before they even start on welfare.

The JOBS Plus program grew out of an initiative approved by Oregon voters in 1990, Measure 7. This initiative, titled the “The Full Employment Program” called for reforming the welfare and unemployment insurance systems by placing recipients in private sector jobs. The legislative act that created JOBS Plus in Oregon allows unemployment insurance recipients to participate in the program, but JOBS Plus has not been used extensively in the UI arena.

In a paper for the Cascade Policy Institute and the American Institute for Full Employment, William B. Conerly argues that extending JOBS Plus to UI would result in reduced usage of unemployment insurance, shortened spells of unemployment benefits, and reduced layoffs². Conerly calculates that the program could reduce Oregon's unemployment expenses by 68%. The unemployment tax rate could then decrease by the same percentage. Much of the tax savings would be passed on to workers in the form of higher wages. Based upon 1990-94 data, workers wages would increase by 1.1 percent.

Conerly has extended his calculations to Washington state³, based on 1990-1996 data. He estimates an expenditure reduction of 67 percent. The average tax rate could then fall from 2.13 percent to 0.70 percent. He further estimates that employee wages would increase by 1.0 percent.

¹ Described in the Washington Research Council *Special Report* “Catching Up on Welfare Reform” May 8, 1998.

² William B. Conerly, *Jobs, Not Unemployment: Reforming Unemployment Insurance*, Cascade Policy Institute, Policy Insight No. 104, January 1998.

³ William B. Conerly, Memorandum to the Washington Research Council, November 10, 1998.

Among the more modest changes, which should nonetheless reduce the costs of the system while expediting reemployment, are the following:

- imposing stricter work search requirements, and
- requiring attendance at seminars on career search or job training as a condition of receiving benefits.

Mid-range recommendations which should be considered include:

- adopting restrictions on payments to workers in seasonal industries,
- reducing benefit levels to the national average, and
- reducing the maximum duration period for benefit receipt from 30 weeks to the more common 26 week maximum.

By attaching benefit receipt to work, these policies recognize that the solution to the problem of unemployment is, in fact, employment.

These policy changes would result in reduced costs to the UI system, reduce the incentives to remain unemployed and expedite workforce reattachment. The policies most likely to achieve dramatic changes in behavior and costs, however, are drawn directly from successful welfare reform efforts:

- requiring UI recipients to work in public service jobs as a condition of receiving benefits, and
- requiring acceptance of subsidized employment (the JOBS Plus model) in lieu of UI benefits.

By attaching benefit receipt to work, these policies recognize that the solution to the problem of unemployment is, in fact, employment. Payment for work, whether in the public sector through public service jobs or in subsidized private sector employment, correctly matches incentives and benefits. Some (perhaps many) people will choose to forego the UI system and find their own employment, as has been the experience in Oregon's JOBS Plus program. If so, the policy objective is achieved. Successful reemployment is the goal.

By working within the framework of UI to reduce over-reliance on the system and reinforce incentives for reemployment, the state UI system can reduce the high UI tax rates and meet the legitimate policy objective of providing income support to workers temporarily unemployed through no fault of their own.

Funding support for this Special Report provided by the American Institute for Full Employment and members of the Washington Research Council.

Notes

¹ The Social Security Act of 1935 created the Federal-State compensation system to assist unemployed workers and provide stability to local economies during economic downturns. The Washington Employment Security Department (ESD) was formed in 1937 to implement and provide the services mandated by the Act. The state laws governing UI are found in the Employment Security Act, Title 50 of the Revised Code of Washington. These laws give the commissioner broad authority to administer the program through the establishment of regulations. These regulations are contained in Chapter 192 of the Washington Administrative Code and are the department's interpretation of the law.

² Leslie E. Papke, "Interstate Business Tax Differentials and New Firm Location," *Journal of Public Economics*, 45(1) June 1991 pp. 215-37 and "Subnational Taxation and Capital Mobility: Estimates of Tax-Price Elasticities and Their Implications for Business Investment Location," *National Tax Journal*, 39(3) September 1986, pp. 357-366.

³ Washington Roundtable, *Principles for Prosperity: How Washington's Business Climate Compares, How Washington Must Change to Compete*. January 1995.

⁴ Victor Fuchs, Alan B. Krueger, and James M. Poterba, "Economists' Views about Parameters, Values, and Policies: Survey Results in Labor and Public Economics," *Journal of Economic Literature*, Volume XXXVI Number 3 September 1998, pp.1387-1425.

⁵ Patricia M. Anderson and Bruce D. Meyer, "The Effects of Firm Specific Taxes and Government Mandates with an Application to the U.S. Unemployment Insurance Program," *Journal of Public Economics*, (65) 1997, pp. 119-145.

⁶ Bruce Meyer and Dan Rosenbaum, "Repeat Use of Unemployment Insurance," NBER Working Paper #5423, January 1996.

⁷ UWC - Strategic Services on Unemployment Compensation and Workers Compensation, *Highlights of State Unemployment Compensation Laws, January 1998*, Washington: National Foundation for Unemployment Compensation and Workers Compensation, 1998.

⁸ Terry Johnson and Daniel Klepinger, "Evaluation of the Impacts of the Washington Alternative Work Search Experiment," U.S. Department of Labor Unemployment Insurance Occasional Paper 91-4, January 1991.

⁹ Paul Decker in "Work Incentives and Disincentives," in Christopher O'Leary and Stephen Wandner eds., *Unemployment Insurance in the United States*, Kalamazoo, Michigan: Upjohn Institute, 1997.

¹⁰ Mark Gritz and Thomas MaCurdy, "Unemployment Compensation and Episodes of Nonemployment," *Empirical Economics* 17 (1) 1992, pp. 183-204.

¹¹ Bruce D. Meyer, "What Have We Learned from the Illinois Reemployment Bonus Experiment?" *Journal of Labor Economics*, January 1996 26-51; Bruce D. Meyer, "Lessons from the U.S. Unemployment Insurance Experiments," *Journal of Economic Literature*, 33(1), March 1995 91-131; and Christopher J. O'Leary, Robert G. Spiegelman and Kenneth J. Kline, "Do Bonus Offers Shorten Unemployment Insurance Spells? Results from the Washington Experiment," *Journal of Policy Analysis and Management*, 14(2), Spring 1995, pp. 245-69.

¹² Meyer, 1995; see also Johnson and Klepinger, 1991.

Washington Research Council Selected Recent Publications

Housing Affordability in the Puget Sound Metropolitan Area, September 1998 – Examines the region's housing challenge, focusing on four areas of concern: 1) the relationship between the business cycle and the supply and price of housing, including rental housing; 2) the relative affordability of housing, with particular attention to the buying opportunities for households earning below the median income level in the region; 3) an assessment of the progress made toward meeting the housing goals established in the metropolitan counties' comprehensive plans; and, 4) a comparison of the Seattle area with five metropolitan areas on the basis of housing affordability and several selected quality-of-life measures.

Understanding Washington State Taxes (1998 Edition) August 1998 - This report provides a systematic overview of the state tax system. Included is a history of taxation in Washington, a description of the current tax structure, and a discussion of the distribution of the tax burden.

Key Budget Actions: The Supplemental Budget, June 17, 1998 - The 1998 legislature made few changes in state spending and tax policy, an appropriate outcome of the short, election-year legislative session. Transportation finance dominated legislative discussions, and again a key fiscal measure awaits voter approval (as did property tax relief in 1997). In this Fiscal Report, the Washington Research Council looks at the changes made in the state's two-year biennial general fund-state (GFS) budget, the capital budget, and transportation spending.

Catching Up On Welfare Reform, May 8, 1998 - In the last decade welfare programs in the United States have been radically transformed. From January 1993 to September 1997 Oregon welfare caseloads fell by 51 percent; nationally welfare caseloads fell by only 29 percent. Washington, on the other hand, has been a relative laggard. Over the period its caseloads fell by only 14 percent. In 1997 a long legislative impasse was broken and the Washington Legislature enacted a major reform that may dramatically reduce the state's caseload. This Special Report gives an overview of Washington's new welfare program, WorkFirst.

State's College Financial Aid Program Gets a Failing Grade, March 27, 1998 - This report cites the State Need Grant as being Washington state's largest financial aid program for college students. The report says that this program should play a critical role in guaranteeing that talented young people have access to a first class higher education. However, the report finds that as the program is currently structured, it fails in this role. In its current form Washington's State Need Grant Program does a poor job of ensuring access to the baccalaureate institutions for economically disadvantaged students who are under the age of 24. It is the conclusion of this report that to meet the challenge of the expanding college enrollments, the program will have to be fundamentally redesigned.

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