Washington
Research Council

Policy Brief

PB 99:16
March 22, 1999

Legislature Ignores Workable Reforms

BRIEFLY

Washington Unemployment Insurance Taxes remain far above the national average.

Nevertheless, the major changes seriously considered by the legislature would have increased the cost of the system.

This session, the legislature has considered a number of proposals to expand the state's Unemployment Insurance system. These all ran counter to the Research Council's recommendations that the state should look to reforms that would reduce costs of the system while expediting reemployment.

The Research Council's Special Report, *Getting Back to Work: Reconsidering Unemployment Insurance in Washington State* noted that employers in this state shoulder a far greater tax rate for unemployment benefits than the national average. Data recently released by the U.S. Department of Labor shows that this continued to be the case in 1997.

Among the proposals considered and rejected by the legislature were bills to extend coverage to part-time workers, certain strikers, and individuals who are trying to start their own businesses.

All of these bills would have further raised the costs of the UI system and made Washington a still less attractive as a place to do business.

One proposal to add two more years of benefits for unemployed aerospace and timber workers and fin fishers, and one more year of benefits for other dislocated workers is still before the legislature.

The state-estimated additional UI cost to employers: $32 million.

Association of Washington Business general counsel Clif Finch recently told legislators that while UI taxes nationally stepped up 1.5 percent last year, Washington employers suffered a hefty 7.9 percent hike. "It's time to bring this system under control," he said.

In testimony, Finch said, "Washington State at 30 weeks of benefits has the longest basic benefits in the country, and is one of only two states over 26 weeks. The state is one of only seven states that has adopted a second federal program for extended benefits, and as a result in recent years has paid extended benefits more frequently than any other state."

Little understood is that workers, too, pay a price for such rich benefits. Finch cited Laurdan Associates comparative analysis of tax liability: "Washington workers are already funding one of the three highest taxes in the national, over twice the national average."

The Research Council's special report on unemployment insurance, published Nov. 20 last year, stated that "economists generally agree that taxes impose on employer payrolls are in large part shifted onto employees in the form of lower wages."

Economists generally also pay attention to incentives embodied in public policies. Unemployment insurance increases unemployment by increasing the cost of returning to work, that cost being the benefits they would have to give up.

How Washington's UI Tax Compared in 1997

National Average Employer Tax Rate:	0.70%
Washington's Average Rate: (6th Highest)	1.19%

Source: U.S. Dept. of Labor ET Handbook 394

"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," the Research Council reported. "Research has documented that reemployment can be accelerated by changing the incentives associated with UI."

The Research Council's report suggested a range of possible reforms:

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.

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 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. Successful reemployment is the goal.

Laurdan Comparative Analysis of Average per Employee UI Tax Liability
1998

	State Rank	Total Tax
Rhode Island	1	$729.40
Alaska	2	$610.30
Washington	3	$573.50
Hawaii	4	$531.20
Connecticut	5	$511.00
U.S. Average		**$207.20**
Florida	46	$119.00
Virginia	47	$104.00
South Dakota	48	$98.00
New Hampshire	49	$88.00
Nebraska	50	$84.00

Source: Laurdan Associates

Two Special Reports of related interest are available at our web site (http://researchcouncil.org) or call for hard copy by mail (206) 467-7088

Getting Back to Work: Reconsidering Unemployment Insurance in Washington - November 1998 - 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.

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.

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