BENEFIT RECIPIENCY RATES UNDER THE FEDERAL/STATE UNEMPLOYMENT INSURANCE PROGRAM: EXPLAINING AND REVERSING DECLINE

by

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Abstract

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Submitted to the Department of Urban Studies and Planning
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This paper explores the responsiveness of one essential welfare state program, the federal/state unemployment insurance system, to the changing economic context in which it operates. At its core is an explanation of the most telling evidence of program inadequacy, the declining percentage of the unemployed receiving benefits. To what extent does changes in state programs explain the decline in the percentage of the unemployed receiving benefits during the 1980s?

The federal/state program was designed in the 1930s, guided by assumptions about economic reality that were operative at that time. For decades, the existing mix of program attributes at least produced an actuarily sound program and provided modest benefits for most of those unemployed in covered employment. After 1975, however, benefit and payroll tax calculations were largely unchanged while the demands on the system increased as unemployment shifted from temporary layoffs to sustained unemployment and transitions to new work.

State governments, faced with heightened demands on resources, operating in a context of intensified competition and a unique federal/state distribution of roles, adopted tighter eligibility standards and reduced benefits to protect their trust funds from insolvency. These strategies, which may have made sense on a state by state basis, have effectively dismantled the current unemployment insurance system. Taken together, changes in the legal factors which exclude claimants from receiving benefits account for 70.6 percent of the drop in recipiency rates between 1979 and 1984. Legal variables also explain 10.9 percent of the decline in application rates. Reversing that decline requires federal action linking unemployment insurance to an active labor market policy that accounts for the changed context of the program.

Thesis Supervisor: Dr. Edwin Melendez
Title: Associate Professor

In Memory of
Michael Harrington and
Irving Howe.

We are, all of us,
diminished by your absence.

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Dr. Abel Valenzuela, Jr. started the Ph.D. program when I did, completed his exams when I did, will defend his dissertation the month I do, and we will collect our diplomas together. Though he lives across the country, he looks over my shoulder as I type this.

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Introduction

The unemployment insurance (UI) system was established over 50 years ago in a specific economic context. Since that time, the economic environment has changed dramatically, but the UI system has been altered only marginally. The story that follows is thus about the mismatch between a social insurance program and the economic context within which it operates, a program caught between the Scylla of declining resources and the Charybdis of heightened program demands. It is a story about a pattern of counter-productive responses to crisis. In the end, hopefully, it is also a story about what can be done.

The Changing Economy

Various authors, of diverse political persuasions, have identified a transformation of economic relationships in the United States since the early 1970s (Bartlett and Steele, 1992; Piore and Sabel, 1984; Marglin and Schor, 1990; Bluestone and Harrison, 1988; Bluestone and Harrison, 1982; Bowles, Gordon, and Weisskopf, 1983; Lash and Urry, 1987; Best, 1990; Levy, 1988; Hirst and Zeitlin, 1990). The decline of mass production, the rise of an information age, a Second Industrial Divide, a Great U-Turn -- by whatever name, and however overstated, numerous authors argue that the United States is witnessing a fundamental shift in labor-capital, governmental, and international relationships. Evaluating the merits or inadequacies of

each of these theories is beyond the scope of this discussion. But they are all efforts to understand a transformation which is apparent in four trends that are of concern here, trends which link economic transformation, the labor market, and unemployment insurance.

First, the U.S. economy has, since the early 1970s, faced increased international trade pressures. Graph One shows the merchandise trade balance from 1946 to 1991.

[Graph One]

Trade pressures, particularly from low wage producers (Mead, 1991), intensify productivity requirements and restrict wage gains. The impact of trade competition hit manufacturing particularly hard during the 1980s, with attendant impact on wages and unionization. This environment is known to have a disproportionate effect on women, youth, Hispanics, African-Americans, and less educated workers, meaning that "the workers most likely to loser their jobs in a more open trading environment are those who have the most difficulty relocating" and, hence, suffer long unemployment spells (Bednarzik, 1993).

Second, profit rates have fallen throughout the Organization for Economic Coordination and Development (OECD) countries (Glyn, Hughes, Lipietz, Singh, 1990;

Bluestone and Harrison, 1988; Bowles, Gordon, Weisskopf, 1986). One response has been reduced employment, with obvious impact on programs financed through payroll taxes, including unemployment insurance. The fall of profit rates also increases political action by business interests to reduce unemployment tax rates, limit benefits, and increase disqualifications in an effort to limit payroll tax expenses.

Third, related to trade and low profit margins, business failure rates have climbed throughout recent years.

[Graph Two]

Business failures limit trust fund reserves by increasing outlays for benefits without providing an opportunity to reclaim revenues through experience rating.

Fourth, all of the above -- business failures, international competition, falling profits -- heighten the competition among states for the few industrial relocations that do occur, increase state efforts to minimize business costs, and allow companies to play states against each other in the name of "business climate". This heightened competition, spreading from product markets to interstate legislative competition, had dire consequences for

unemployment insurance in the 1980s, and most other state programs as well (Albelda and MacEwan, 1992; Gramlich, 1991).

The four broad trends identified above result, among other things, in some new and challenging patterns in the labor market. Although unemployment insurance cannot be expected to reverse all aspects of economic decline, it should be called upon to ameliorate some of the labor market results of that decline. The labor market implications of the four trends discussed above are not difficult to uncover. Paramount among the effects throughout the late 1970s and into the 1980s was the shift of employment between occupations and industries, causing dislocation and changing skill needs. The most commonly cited change is the declining share of total employment that is in manufacturing. In 1965, manufacturing held 30 percent of nonagricultural payrolls. By 1979, that figure had slipped to 23 percent and by 1990 it was only 17 percent.

A changing occupation and industry mix means changing skill needs within and across industries and occupations. This point has controversial interpretations, with bold statements asserting that skill requirements will explode in the future (Hudson Institute, 1987) and more convincing counter findings that the trend is badly overstated (Mishel and Teixeira, 1990; National Center on Education and the Economy, 1990). Although the macro stories of vast skill transformation are debateable, data on training requirements

shows evidence of changing, if not heightened, skill requirements (Topel, 1993; Bishop, 1992; Useem, 1993; Katz and Keefe, 1993; Industrial Technology Institute, 1991). Without access to training for new jobs, various categories of workers are at risk of lengthy unemployment spells.

The risk of lengthy unemployment spells due to changes in industry, occupation, and skill mix is heightened given the growth of plant closings and mass layoffs. Bureau of Labor Statistics mass layoff data has only been gathered since the early 1980s, and even then not all states participated.[1] Graph Three shows figures for those states and years which are available.

[Graph Three]

It is noteworthy that this steep increase corresponds to an economic recovery, of sorts. This trend can be expected to continue, or deepen, in future years as workers brace for defense cuts and the proposed North American Free Trade Agreement. During each year of the 1980s, almost two million workers were laid off by their employers with no hope of recall (Congressional Budget Office, 1993).

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1 The funding for the mass layoff survey is in jeopardy as this is written. Also, Michigan, a state with numerous mass layoffs and plant closing, is not surveyed.

The hostile new economic context has also increased the number of discouraged workers. Discouraged workers are defined as not seeking work because they think they cannot find a job. Between 1979 and 1990, the most recent business cycle peak, the number of discouraged workers rose by 100,000, or 13.2 percent, while the number of unemployed rose 10.7 percent (Bureau of Labor Statistics, "Employment and Earnings", January 1980, 1991). The rise of discouraged workers is troubling because it indicates that people want to be attached to the labor force but feel they won't find work (Buss and Redburn, 1988). Their specific needs are unanswered by current programs.

Declining unionization is another element of the new labor market scene. In 1950, unionization rates peaked at 34.7 percent. Between 1979 and 1990, the portion of all wage and salaried employees who were members of unions or employee associations declined from 24.1 percent to 16.1 percent, a loss of 4.2 million union workers. In 1973, about 22 workers joined unions for every union worker lost through decertifications. By 1988, unions added only 4.5 members for every member lost through decertification (Bronars and Deere, 1989). This "zapping" of labor (Bluestone and Harrison, 1988) weakens an essential force for workers, including those hoping to claim unemployment benefits.

A final important change is the expansion of contingent employment. Numerous authors have dissected the effects of

reduced connection between employer and employee (Tilly, 1992; Callaghan and Hartmann, 1991; Belous, 1989; Abraham, 1987). For a time in the early 1980s, management journals stressed the value of commitment to employees and the corporation as family. That trend was short lived while the trend toward contingent work has continued into the 1990s (Kilborn, 1993). Temporary-help employment grew 10 times faster than overall employment between 1982 and 1990 until, in 1992, temporary jobs accounted for two-thirds of new private sector jobs (Ansberry, 1993).

These labor market trends (industry and occupation shifts, dislocated workers, changing skill requirements, contingent work) have caused a marked growth in long term unemployment. Graph Four shows the increasing trend toward lengthy unemployment spells.

[Graph Four]

With each business cycle trough since the early 1970s, the median unemployment duration has risen. The same is true of unemployment rates. Moreover, the relationship between unemployment rates and unemployment durations has deteriorated. Comparing lagged unemployment durations and unemployment rates gives a ratio of the average number of weeks unemployment for each percentage point increase in

unemployment rates. That ratio increased steadily from 1975 to 1979 to 1992: 1.9, 2.1, 2.4. Because lengthy unemployment spells stretch scarce resource and sharpen the conflict between the UI program and its economic context, addressing the problem of lengthening unemployment durations holds the key to understanding both the decline and potential resurrection of the UI system.

Briefly, there are several potential connections to explore between the labor market trends discussed above and the UI system that must address them. For example, manufacturing employment has special characteristics that relate to important UI program parameters, namely high wages, unique layoff patterns that affect experience rating, and seniority layoff systems. Increases in discouraged workers and contingent employment are relevant to UI because of "suitable work" and discharges relating to it, monetary earnings requirements, penalties for quitting, and the range of potential labor market states entered by exhaustees.

Declining unionization may be the most important labor market change for unemployment insurance because unions are a social structure that facilitates benefit recipiency by claimants both politically and at the point of unemployment. Where Supplemental Unemployment Benefits (SUB) are written into collective bargaining agreements, they are a powerful incentive to seek regular state unemployment compensation. SUB typically replaces up to 95 percent of previous wages, but only if regular UI is being received.

Falling unionization raises issues around "suitable work," the ability of claimants to understand the UI program's complexities and receive fair hearings, and the political power of claimants versus employers affecting overall program design. The decline of reverse seniority layoffs, which most unions have supported, may also be relevant as workers with long tenure in firm-specific jobs return to the labor market. Moreover, higher union wage rates, particularly for younger workers (Blackburn, Bloom, and Freeman, 1989), improve the odds that a claimant will meet tougher monetary eligibility requirements.

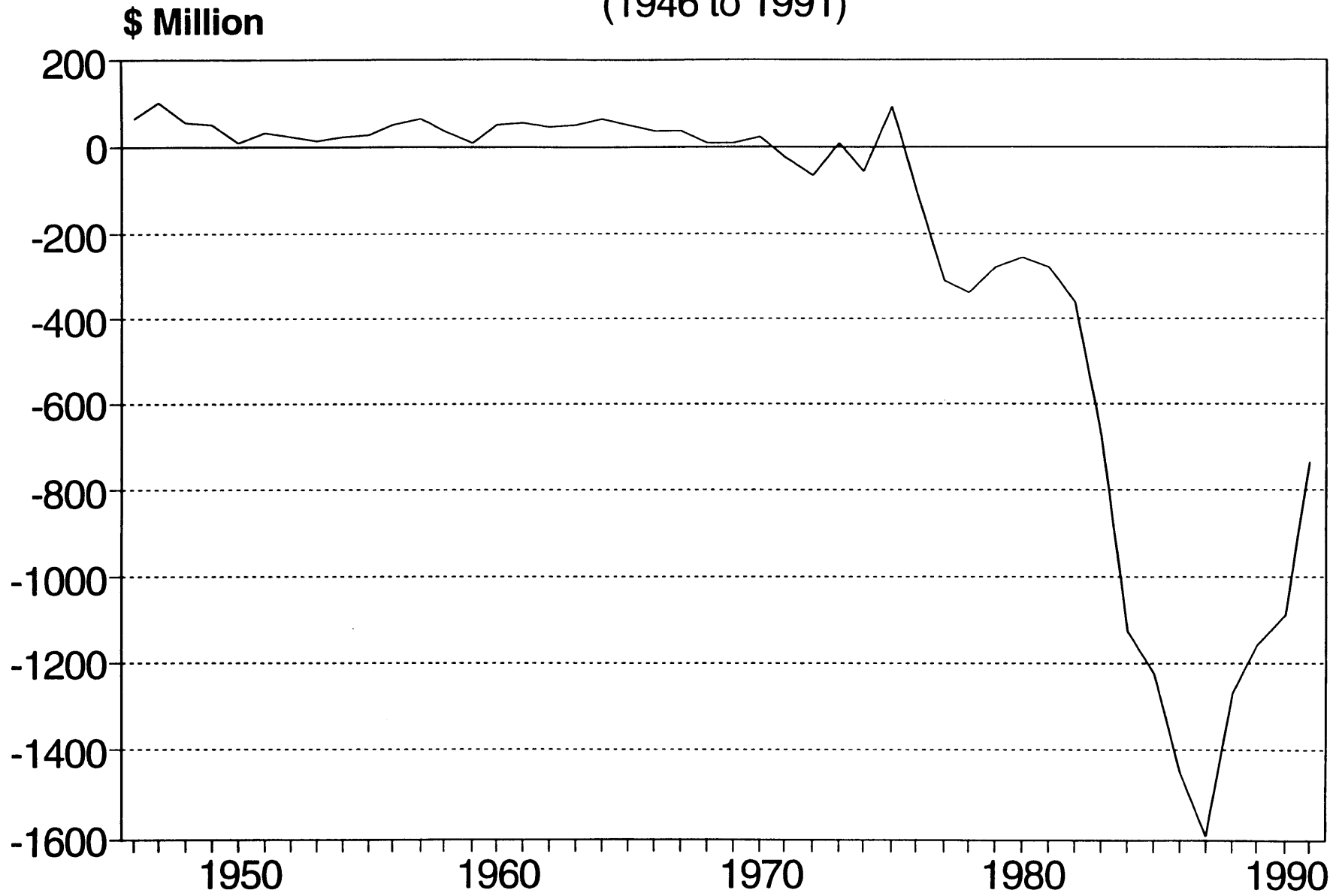
Dissertation Design

The core of this study is an attempt to measure the ability of the existing federal/state program to address this labor market transformation given the legislative changes instituted by state and federal actors during the 1980s. The changing pattern of unemployment shows that, taken together, the increasing ranks of discouraged workers, the decline of unionization, the expansion of contingent employment, and worker dislocation in the face of shifting industry and occupation employment add up to growth in secular, structural unemployment making new demands on a program that (not getting too far ahead of the story) is designed to support workers through brief periods of cyclical unemployment.

It is not inevitable that these large economic transformations and their labor market counterparts should derail the unemployment insurance system. To understand how benefit recipiency rates were driven down as states responded to these new economic demands, one must first understand the origins and structure of the UI system which mediated these trends. Chapter One is thus a review of how the program was modified--or not--by federal actors as the identified economic changes developed. Chapter Two explores patterns of state responses in the 1980s when the gap between the program and its context widened, facilitated by the virtual inactivity noted at the federal level between 1935 and 1979 in Chapter One. Chapter Three tests assumptions about the role of identified legal and economic changes in declining UI recipiency rates, essentially assigning blame. Finally, the closing chapter returns more directly to issues of economic context and responses, suggesting means to rebuild the failing UI system.

MERCHANDISE TRADE BALANCE

(1946 to 1991)



Source: Economic Report of the President, 1993

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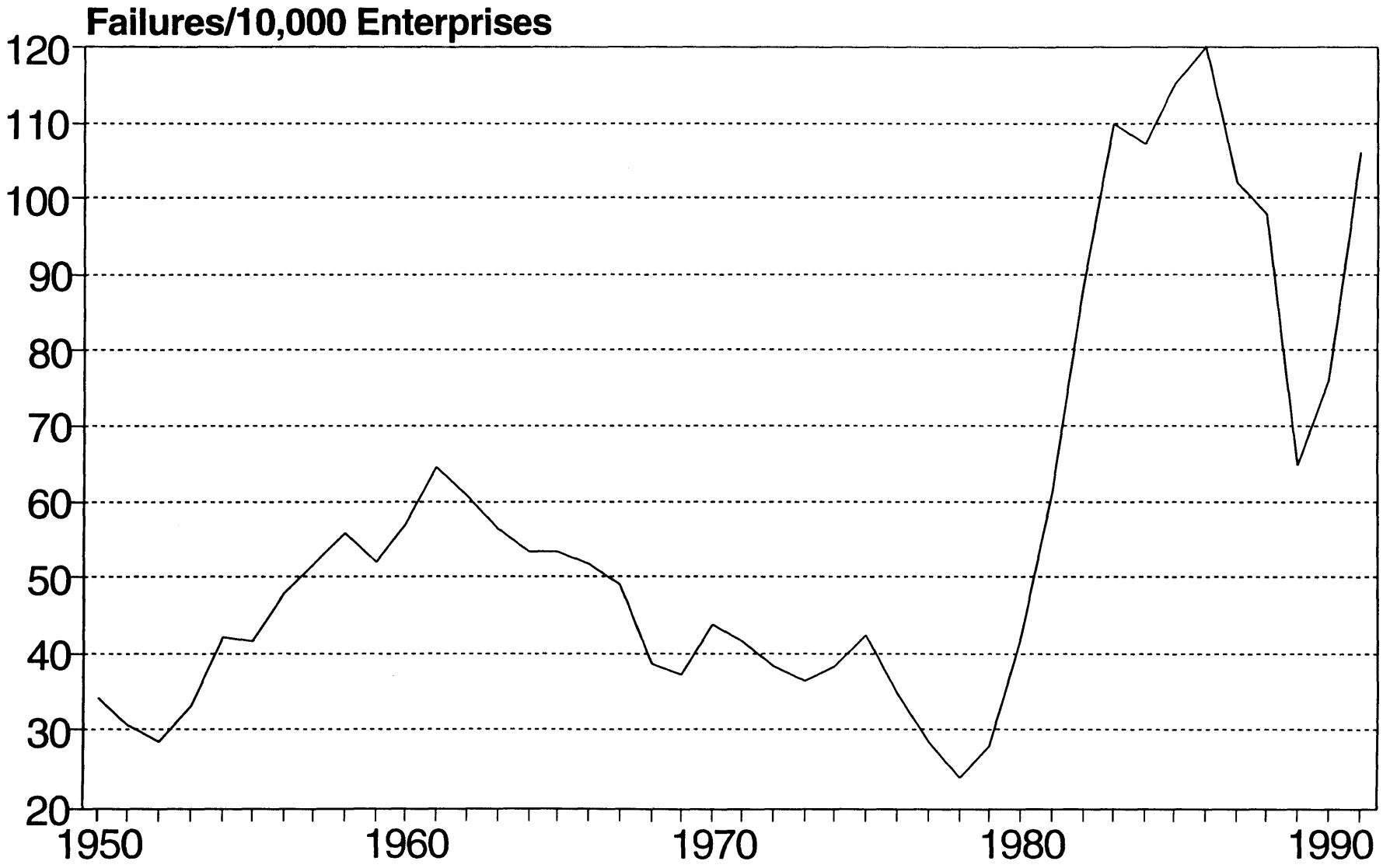
Graph Two

BUSINESS FAILURE RATE

(1950 to 1991)



Source: Economic Report of the President, 1993

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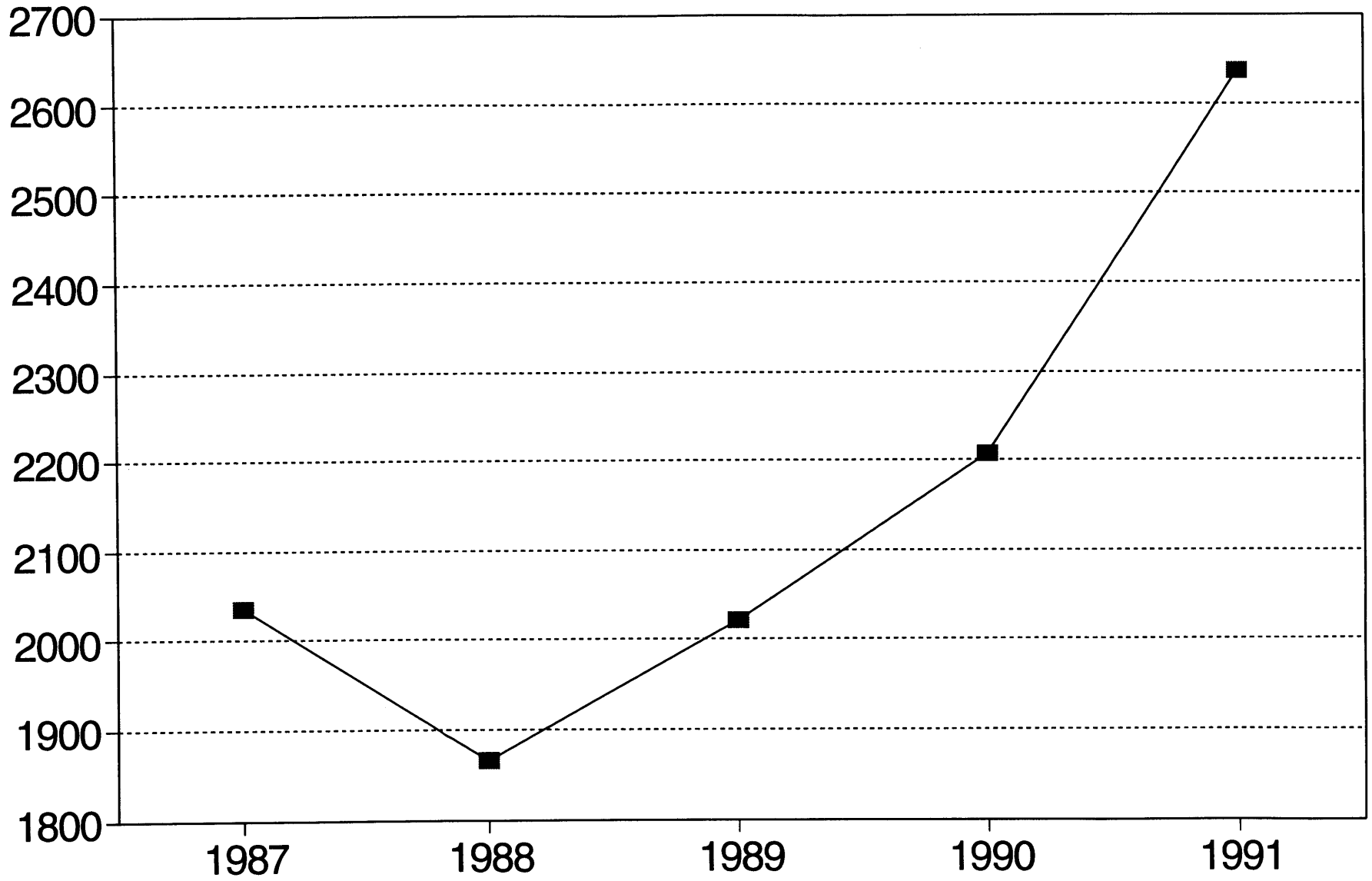
Graph Three

Number of Mass Layoff Events (29 States)



Source: BLS, Mass Layoffs.
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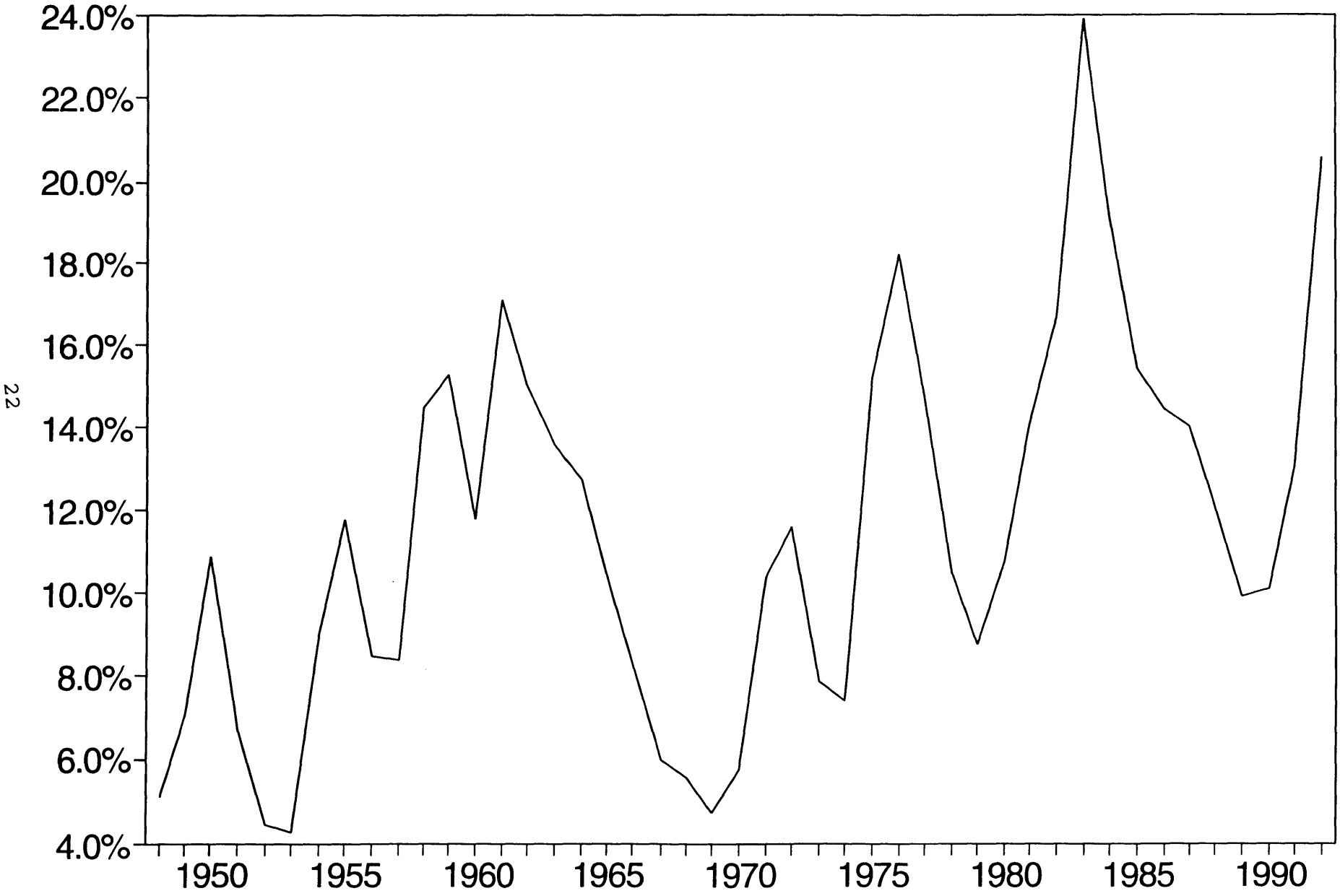
Mass layoff events affect 50 of more workers. 1987 is the first year that more than half the states were surveyed. 1991 is the last full year in which states were surveyed.

Graph Four

Percentage Unemployed
27 Weeks or More



Chapter One
You Can Only Get Here From There: The Ill-Fated History of Federal Unemployment Insurance Legislation

From the Social Security Act of 1935 to the report of the National Commission on Unemployment Compensation in 1980, the basic state/federal structure of unemployment insurance in the United States remained unchanged, perhaps even unchallenged. Many observers tell the story of unemployment insurance in the U.S. as if it were a gradual, constant march forward (Rubin, 1983; Rosbrow, 1985). In fact, the program history is riddled with blind alleys and dead-ends, frustrated attempts at uniformity across states, and repeated calls for claimants' rights that go unheeded.[2]

The second chapter will focus on activity by the states in recent years. First, these pages will chart the federal legislative history of unemployment insurance in the United States, with special attention to the contest between state and federal actors for control over program boundaries. It begins with a look at the program environment before 1935 and debate around the design of the Social Security Act. These debates are then carried forward through time, from administration to administration. Tensions around program

2 Rosbrow's history of federal legislation does not mention the establishment of the National Commission on Unemployment Compensation in 1976 even though he served as Executive Director. The Committee met for 28 months, and virtually once a month, before releasing its final report and three volumes of supporting research. No major recommendation of the Commission, as this chapter and the next discusses, was implemented.

boundaries come and go with the rise and fall of unemployment rates or labor market shocks, but the essential federal/state character of the program remains constant. The debates which arise throughout the history of the program culminate in the report of the National Commission on Unemployment Compensation, a body which had all the makings of a latter-day Committee on Economic Security. Chapters that follow will show the fate of the Commission's recommendations--and the consequences of what transpired.

Unemployment Insurance Before 1935

No sea change of the scale of the Social Security Act of 1935 can come about without antecedents. In the case of unemployment insurance, three strains of unemployment compensation were present before the Committee on Economic Security began meeting. The most influential approach was the Wisconsin strategy, advocated with particular forcefulness by Dr. John Commons of the University of Wisconsin and advanced by Senator Henry Huber in that state's legislature. This plan was characterized by four main elements: 1) funds held in distinct pools from each employer, 2) contributions from employers alone, 3) an "experience rating" system to link tax rates and layoff history for employers, 4) benefit durations dependent upon pre-layoff employment history. The plan was adopted in 1932, but included a proviso that it would only take effect

if there were insufficient progress toward voluntary plans on the part of employers within one and a half years.

Second, the "Ohio Plan", though never adopted, rallied reform elements in that state, galvanized trade union support to an extent that other plans did not, and differed markedly from the Wisconsin plan. The Ohio plan contained: employer and employee contributions to the benefit fund, a pooling of money from all employers into one source for benefits, and some experience rating of taxes.[3] Advocates for the Ohio plan, most notably Isaac Rubinow, believed that their structure better represented the social insurance function of an unemployment compensation system. In contrast, the Wisconsin plan, modeled after workers compensation law, was intended to discourage unemployment from occurring by varying tax rates. To advocates of the Ohio plan, such efforts were doomed to fail given the lack of control that most employers have over their markets and, hence, employment demands (Nelson, 1969).

A third strain of the activity around unemployment insurance was the various voluntary programs run by trade unions or employer associations. On the trade union side, 45 local unions and three national unions had unemployment insurance funds in 1931 (Haber and Murray, 1965). The "Ghent System," originating in Belgium in 1916, found favor with many unions because it relied on existing "friendly

3 In a foreshadowing of events to come, Ohio employers withheld their support for the plan until it included more liberal experience rating.

organizations" or trade union support networks, though it was not adopted in American cities. In many European cities well before the Depression, municipal governments agreed to supplement trade union unemployment insurance funds. On the employer side, the "New Emphasis" (Nelson, 1969) encouraged employers to establish their own unemployment insurance funds, either alone or in concert with other employers in their industry. The most famous of these efforts, the "Rochester Plan", linked 14 firms in a voluntary agreement. Each of the firms paid two percent of payroll into a fund, which it administered and which it alone funded.[4] General Electric and J.I. Case had similar plans of their own, with each including employee contributions. Whether employer-driven or linked to trade unions, these voluntary plans were usually conscious efforts to avoid governmental restrictions on private control over social insurance.

Until 1935, Wisconsin was the only state to adopt unemployment insurance, but it wasn't for want of trying in the other states. Legislators in 17 states introduced 52 bills in 1931 (Haber and Murray, 1966). In 1933, 68 bills were introduced in 25 states (Witte, 1945). But throughout the period, even though study commissions and one side of several state legislatures voted for bills, progress was slow until federal action loomed large in 1935.

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4 Officials from eight of the 14 "Rochester Plan" firms testified in favor of general unemployment insurance before federal or state hearings (Haber and Murray, 1966).

The Social Security Act Debates

Obviously, at the time of the Social Security Act, the economic context of the Great Depression was the dominant concern. Franklin Roosevelt had been a vociferous advocate of unemployment insurance as Governor of New York even before the Depression, sending then-Labor Commissioner Perkins to Great Britain to study their system and sponsoring an Interstate Conference on unemployment insurance. As president, Roosevelt first endorsed the Wagner-Lewis bill of 1934, but no action was taken when employer resistance proved too strong and Roosevelt decided the proposed reserves were too large.

In June of 1934, Roosevelt announced his intention to advance a comprehensive social insurance plan and to establish a Committee on Economic Security to develop such a plan. The Committee had Francis Perkins as Chair, Edwin Witte of Wisconsin as executive director, and Thomas Eliot as counsel. The Committee employed a range of "experts" and established various advisory committees to survey the opinions of constituencies.

The unemployment insurance portion of the Committee's work was dominated by one overarching concern--constitutionality. There was some question at the time of the Committee's deliberations of whether any federal effort to establish unemployment compensation would be allowed by the Supreme Court. In the shadow of the *Schechter* decision,

which ruled the National Reconstruction Act unconstitutional[5], many advocates feared that a national unemployment insurance law would be struck down.

By several accounts, the turning point for the future legislation was a Christmas holiday party in 1933 where Supreme Court Justice Brandeis casually suggested to his son-in-law, Paul Raushenbusch, an advocate for unemployment insurance in Wisconsin, that a particular federal real estate law case (*Melon* v. *Florida*) had set an excellent precedent for federal legislation to induce states to adopt insurance plans. The federal law imposed a uniform inheritance tax, 80 percent of which was refunded if states adopted certain behaviors. Raushenbusch took the hint and worked with Thomas Eliot on the Wagner-Lewis Act of 1934, drafting a financing provision that would follow the example of the Federal Estate Tax Act of 1926 (Eliot, 1960; Haber and Murray, 1966). Later, Eliot would be "tiresomely persistent" that such provisions emerge from the Commission deliberations, knowing in advance that the Supreme Court would be favorably disposed toward that mechanism (Eliot, 1960).

In retrospect, the federal/state framework advocated in the Committee's final report was a forgone conclusion. Roosevelt, who gave notably little guidance to the

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5 About the Schechter poultry case, one Roosevelt administration official is said to have commented, "If the Court said we couldn't do this with a dead chicken, what else could we do?" (Leuchtenburg, 1963).

Committee's deliberations, suggested from the start that the federal government should retain control over fund investments and that state powers should be maximized. The fear of Supreme Court action was always prevalent. Leading members of the House Ways and Means Committee and Senate Finance Committee agreed that only a federal/state program would survive a test of constitutionality and secure state cooperation (Witte, 1945). And the need for "experimentation," a genuine concern given the virtual absence of existing programs in the United States, weighed heavily.

Nevertheless, debate raged within the Committee. Three potential plans emerged: 1) a fully federal program, 2) a subsidy plan, and 3) a tax incentive plan. The Subcommittee on Unemployment Insurance of the Technical Committee on Economic Security initially decided to recommend a fully federal system, but in the end couldn't agree on a design (Witte, 1945). The subsidy plan was supported as an alternative by advocates of a federal program because it put heavy emphasis on standards with minimal risk of unconstitutionality. The subsidy plan would collect employer taxes into a federal fund and disperse payments if a state met prescribed standards.[6] Some Committee members

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6 Witte, the staff director of the Committee, was fundamentally opposed to federalization and the subsidy plan and used his influence accordingly. He would later write that the subsidy plan "would not have given the states any aid whatsoever, but would have made it virtually obligatory for them to observe the standards

and staff believed there was not enough practical experience to set federal standards in the subsidy plan (Haber and Murray, 1966). Ultimately, the federal-state plan was sent forward, though, as will be shown below, advocates of federalization continued their efforts in other forums.

Along with constitutionality, two other concerns are prevalent in the Committee's final report. First, the Committee was concerned about interstate competition restricting the program. They advocated a federal tax "to remove the unfair competitive advantage that employers operating in States which have failed to adopt a compensation system enjoy over employers operating in States which give such protection to their wage earners". Later, they write, "So long as there is danger that business in some States will gain a competitive advantage through failure of the State to enact an unemployment compensation law, few such laws will be enacted" (Committee on Economic Security, 1935).

Second, they believed the states needed "wide latitude..in order to conclude what types [of provisions] are most practicable in this country." They argued the need to "learn through demonstration what is best." At numerous places in the draft, the overall uncertainty of the endeavor to design an entire social security system comes through clearly. Calls for experimentation are driven both by

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for unemployment compensation prescribed by the national government" (Witte, 1945).

technical uncertainty and by fear of constitutional challenge.

The obvious conflict between the need to limit interstate competition and the need to allow experimentation was never reconciled by the Committee. Instead, they offer the intellectual equivalent of a "punt": they stress that "it may be possible that experimentation under the proposed statute will show that at some time in the future a plan built upon the other alternative suggestion [federalization] should be substituted, in whole or in part, for that which we are proposing." Along the same lines they optimistically suggest that "should these fears expressed by the champions of a federally administered system prove true, it is always possible by subsequent legislation to establish such a system." The Committee drove the point home further: "Accordingly, Congress can at any time increase the requirements which State laws must fulfill and may, if it sees fit, at some future time, substitute a federally administered system for the cooperative Federal-State system we recommend" (Committee on Economic Security, 1935).[7]

The report of the Committee on Economic Security advanced programs for employment assurance, unemployment compensation, old-age security, security for children, "risks arising out of ill health", and residual relief. It

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7 Here and elsewhere in the report, it is apparent that the Committee was more concerned with administrative competency than with a state's potential for infringement on claimants rights.

is a remarkable statement of the principles of social insurance. By proposing, first, an "employment assurance" program and then an unemployment insurance plan, it links the desirability of full employment and the reality that unemployment, however temporary, is unavoidable.[8] The only remnant of that insight that remains is the payment of unemployment insurance benefits from Employment Service offices.

The final report made five recommendations that found their way into legislation: 1) a federal payroll tax, offset for employers in states that pass unemployment insurance legislation, to induce action by states, 2) federal responsibility for safeguarding funds, 3) allowance for experience rating of state tax rates, 4) a Social Insurance Board in the Department of Labor to monitor state compliance, 5) suggestions to states that they adopt waiting periods, maximum benefit rates, work tests, and provisions for seasonal workers.

The Federal/State Framework of the Social Security Act

The section of the Committee report that dealt with unemployment insurance closed with a plea to Congress to pass legislation in time for states to act before January 1936. The Committee's report was completed on January 15th and on January 17, 1935, President Roosevelt sent a special

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8 One interesting suggestion is the idea that exhaustion of benefits should lead to public sector employment.

message to Congress urging prompt action. By August of 1935, the Social Security Act had passed.

Deliberations surrounding the Social Security Act were anti-climactic at best, and most of the debate centered on provisions besides unemployment insurance. The first bills passed by 371 to 33 in the House and 77 to six in the Senate.[9] But there was a crucial difference between the two bills.

In House hearings, Representative Coopers spotted the inconsistency between using a federal tax to equalize state burdens and also allowing states to have experience rating. The following exchange occurred between Coopers and Dr. Edwin Witte, testifying for the measure:

> Coopers: Doctor, if I understand the underlying principle supporting the idea of a Federal tax, it is to make it uniform throughout the entire country?
>
> Witte: Yes, sir.
>
> Coopers: Thereby meeting a difficulty that would naturally arise on account of the element of competition.
>
> Witte: Certainly.
>
> Coopers: That is, competition between certain business enterprises. If the system is to make allowance for certain industries to have special accounts, does not that strike at the very principle that is supposed to prevail throughout the whole system?

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9 Thomas Eliot tells a funny story that the Wagner-Doughton Bill was actually filed in the House by David Lewis. Chairman Doughton persuaded the House clerk to give his copy of the bill a lower number than Lewis', making it seem that he had introduced it first.

> Witte: It does to a very slight extent, possibly; I will grant you that. But there is a balancing of that against the other factor that everybody realizes -- that unemployment compensation should be something more than merely a payment of benefits on an insurance basis...(Committee on Ways and Means, 1935).

Witte went on to stress the stabilizing effect of experience rating, and Coopers maintained the position that it defeated the purpose of a uniform tax. Coopers' position briefly carried the day when the "additional credit" provisions were summarily removed from the House version. Employer witnesses in the Senate forcefully advocated experience rating, and Senator LaFollette, oddly enough, offered a supportive amendment, which passed the committee unanimously.

No standards for benefit levels were included in the Social Security Act. In 1959, Wilbur Mills, then Chairman of the Ways and Means Committee, and James Carey, then Secretary-Treasurer of the AFL-CIO, would reminisce about the issue of a 50 percent wage replacement rate in the 1935 discussions. Both recalled widespread agreement and a feeling that there was no need to legislate a 50 percent standard. According to Carey, members of the Senate told him, "Everybody accepts this so why do you have to legislate on it?...(It is) the accepted philosophy in the States, in the Congress, and there is no need to write it in" (Carey, 1959). In the early days, that was a sincere belief, but

the fact that benefit standards weren't written into law would prove devastating to the principle.

The conference bill included experience rating provisions, with no minimum tax rates. It also eliminated provisions that linked federal tax rates to an index of industrial production, substituting set federal rates through 1938. Coverage provisions were reduced to employers with eight or more workers for 20 weeks, excluding agricultural workers, domestic servants, maritime workers, nonprofit organizations, family members and government workers. Provisions that allowed the Social Security Board to enforce merit personnel policies in state agencies were removed.

As finally passed, the unemployment insurance portions of the Social Security Act are surprisingly sparse. Title IX specifies employees covered by the Act and set a federal tax of one percent of payroll in 1936, two percent in 1937, and three percent in 1938. It set minimal conditions for a state's employer to receive the 90 percent credit on the federal tax in return for federal approval of the state law. It set limits on experience rating. It established the Unemployment Trust Fund in the Treasury and gave the Social Security Board limited authority to review state laws.

Title III established federal grants to states for program administration. Money to cover administrative costs was to be distributed by a formula based on population, coverage, and "other factors as the Board found relevant."

Tax credits would only flow if the state met Title IX criteria and the full grant for administrative costs would be granted if the state had sufficient administrative guidelines as determined by the Board, provisions for fair hearings, provided reports when requested by the Board, and provided any information requested by federal agencies.

These titles established several federal powers. The definition of "covered employment" was established as a federal prerogative. A federal tax with credits was set, without indexing. The Social Security Board was granted review authority, but its scope was limited. For their employers to receive tax credits, states had to: 1) pay benefits through employment offices, 2) wait two years after collecting taxes before paying benefits, 3) immediately deposit tax revenue in the Federal Unemployment Trust Fund, and 4) withdraw fund money only for unemployment insurance.

The only requirements for states relating to claimants, besides the fair hearings of Title III, were restrictions on denial of continued eligibility. In the so-called "labor standards" provisions, the Act specifies:

> "Compensation will not be denied to any otherwise eligible unemployed worker for refusing to accept new work under any of the following conditions:
> A) if the position offered is vacant due directly to a strike, lockout, or other labor dispute,
> B) if the wages, hours, or other conditions of the work offered are substantially less favorable to the individual than those prevailing for similar work in the locality,

C) if as a condition of being employed the individual would be required to join a company union or to resign from or refrain from joining any bona fide labor organization.

Note that these restrictions on denials are only related to suitable work requirements, not limitations on initial eligibility. Federal powers were limited to fund administration, minimum coverage, federal tax rates, and review of state law for conformity of continued benefit denials and fair hearings for claimants. As further inducement to state action, all program administration costs were federal. States were granted complete control of eligibility, duration, benefit levels, state tax rates, and hiring practices. No lower bound for experience rates was set.[10]

The Founding Principles of the Federal/State UI System

The debates within the Committee on Economic Security and within Congress around the Social Security Act reveal several founding assumptions:

1. Most importantly, they assumed that most unemployment spells are brief. The Committee report suggests a four week waiting period for benefits and maximum

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10 The law permitted even further downward pressure on tax rates by allowing "additional credits" beyond experience rating. States could grant these to employers who had established guaranteed employment accounts or separate reserve accounts, within certain fiduciary guidelines.

durations of 16 weeks, reduced to 15 wherever possible (Committee on Economic Security, 1935a). They note that, though the Depression had lengthened unemployment spells, "in ordinary industrial periods the great majority of workers who become unemployed find other work in a much shorter time" (p. 14). The Committee recommended benefit durations of up to 16 weeks, followed by public works employment.

2. Most of the unemployed return to their original employer. Related to (1) above, the Committee asserts that "normally the insured worker will return to his old job or find other work before his right to benefits is exhausted" (Committee on Economic Security, 1935a). The idea that most unemployment was temporary and that workers would return to previous employers became strong elements of program design.

3. Most of the unemployed are "job losers" and the involuntarily unemployed are clearly recognizable. A pamphlet designed to explain the new program to workers in 1935 stated, "Unemployment insurance is designed primarily to protect the great mass of workers who are usually steadily employed and who lose their jobs for limited periods" (Committee on Economic Security, 1935b). In its original report, the Committee notes that the program is "far from being complete protection" but it is "a valuable first line of defense for the largest group in our

population, the industrial worker ordinarily steadily employed" (Committee on Economic Security, 1935a).

4. Experience rating will reduce layoffs. The debate about experience rating has already been described. The notion that experience rating will reduce unemployment rests on two essential conditions. First, that a given employer has control over employment levels, i.e., temporary layoffs are determined by small marginal cost considerations. Second, that the UI tax will be a sufficient cost item to make it effective at that margin. Toward these ends, the original Committee report suggested taxation of all payrolls (no limited taxable wage base) and a minimum tax rate, regardless of experience, of one percent (Committee on Economic Security, 1935a). With the addition of experience rating in the Social Security Act, the role of the federal tax in reducing state competition and equalizing program parameters was effectively nullified, as Coopers predicted.

Early Experience: 1937-1950

The primary goal of the Social Security Act was to induce state action without Supreme Court disapproval -- a goal reached with surprising alacrity. By 1937, 48 states, Alaska, Hawaii, and Washington, D.C. had enacted unemployment insurance legislation. In the process, a basic misreading of how programs would emerge became apparent. For many in Congress and in the Committee on Economic

Security, the lack of prior state experience suggested that a range of state efforts would emerge, providing examples for later state revisions. As modern usage would phrase it, the states were to be "laboratories" (Osborne, 1988). In fact, states, with no prior experience in the area and fearful of nonconformity with federal law, looked to the Social Security Board for program guidelines. Draft unemployment insurance bills, assembled by the Board, were adopted with minimal changes by most states.[11]

Slight variations in program parameters made the unemployment insurance system a maze of regulations from the start, yet the basic structures and benefit levels were almost identical across states.[12] In 1939, 48 jurisdictions had pooled funds instead of individual employer reserves, 45 had employer taxation only, 48 had uniform tax rates of 2.7 percent before experience rating, and 40 had experience rating. Wide variation in benefit formulas and earnings requirements had little effect in practice: in 49 jurisdictions, the weekly benefit was about 50 percent of prior wages; most states paid 14 or 16 weeks of benefits (regardless of prior employment duration or earnings); 48 jurisdictions set maximum benefits at $15 (in December 1939 the maximum weekly benefit was 50 percent or more of average

11 According to Rubin, one state mistakenly adopted <u>all</u> the alternatives set forth in the "Draft Bills for State Unemployment Compensation of Pooled Fund and Employer Reserve Account Types" (Rubin, 1983).

12 What Haber and Joseph wrote in 1939 is just as accurate today: "Not one in a hundred workers in Michigan understands how his benefits are computed."

weekly wages in 49 jurisdictions); and 45 jurisdictions used prior earnings, not employment duration, to determine eligibility. Disqualifications were limited to voluntary quit without just cause, misconduct discharge, refusing suitable work, and labor disputes (Haber and Joseph, 1939).

The state programs were rapidly established and, just as rapidly, they developed entrenched advocates and generated Congressional concern. One year before benefits were paid in all states, the Interstate Conference of Employment Security Agencies (ICESA) was established with federal support. Intended to provide a conduit for information, ICESA was to prove a powerful advocate for state autonomy at critical junctures in the federal standards debate. The rapid establishment of ICESA, and the federal role in creating the organization, is ironic given the sanguine appeal of the Committee on Economic Security that "all states must include in their statutes provisions to the effect that those acts shall not be deemed to create any vested interest preventing modification or repeal and that a similar reservation of power be made by the Federal Government" (Committee on Economic Security, 1935). This monumental example of wishful thinking was made moot within two years of its writing.[13]

As early as 1939, one year after benefits were first paid in all states, the House Ways and Means Committee

13 To be fair, the intent of the provision was limited to leaving open the potential for adjustments. It was not an appeal against all political organizing.

discussed a bill (HR 6635) which would have changed the practice of experience rating. The House passed legislation stating that a statewide reduction plan would be allowed only if a state met four federal standards for benefit durations, benefit levels, waiting periods, and partial benefits for those who fail monetary eligibility requirements. The Senate struck the provision (Mills, 1959). Nevertheless, it is noteworthy that one year before and one year after benefits were first paid in all states, an organization was built to defend existing state programs and Congressional action was attempted to restrain state powers.

Many supporters of federal standards who served on the Committee on Economic Security found employment in the Social Security Board. In Annual Reports of 1942, 1943, and 1944, the Social Security Board advocated a federal unemployment insurance system. Throughout the 1940s and later, Eveline Burns and William Haber, advocating a broader social insurance perspective, and Edwin Witte, arguing a more limited role, staked out their political terrain in articles and essays. Burns and Haber also worked together in the National Resource Planning Board, producing "Security, Work, and Relief Policies," which advocated a federal unemployment insurance system as part of post-war social policy.

In 1943, with the Murray-Dingell bill (S 1161), the Congress of Industrial Organizations (CIO) supported a

federal unemployment insurance system. Again in 1945, under the Wagner-Murray-Dingell bill, the CIO and the Social Security Board supported federalization. The Interstate Conference of Employment Security Agencies (ICESA), the Council of State Governments, and employer organizations opposed it. Calls for a federal program, whatever their ideological and technical merit, proved politically unrealizable.

Fears of post-War recession sparked renewed interest in program reform. In 1945, Truman advanced a bill to supplement state benefits, allowing a maximum $25 a week for up to 26 weeks. Even this modest proposal, passed by the Senate, brought forth some heavy political artillery. The National Association of Manufacturers issued a press release saying, "Unemployment compensation should remain the responsibility of State governments, without further control or supplementation by the Federal government" (Congressional Quarterly, 1945). In the Ways and Means Committee, Wilbur Mills killed all Administration action with a motion that "further consideration of S 1274 and related Administration bills be indefinitely postponed so that the Committee can receive more concrete information as to what the unemployment situation is to be during the reconversion period" (Congressional Quarterly, 1945).

Gauging the political wind, the 1945 and 1946 Social Security Board annual reports pulled back from federalization, advocating a plan similar to the subsidy

plan that was the fall-back position of federalization advocates in the Committee on Economic Security. By 1948, the Board was advocating federal standards with no change in federal-state administrative structure. In 1950, both the CIO and the AFL passed a resolutions continuing support for a federal unemployment insurance program.

Truman

In 1949, the unemployment rate brushed against six percent. Between 1945 and 1949, the number of claimants exhausting state benefits rose from 250,440 to 1,934,709 (Employment and Training Administration, 1983). On April 6, 1950, Truman issued a message to Congress that represented the first action at the Presidential level to advance federal standards for unemployment insurance. Truman advocated extending coverage to firms employing one or more employees (down from eight), federal civilian employees, employees on commission, some agricultural workers, and Puerto Rico. Second, he recommended a 50 percent wage replacement rate, up to $30 a week, plus dependents allowances; a minimum 26 weeks of benefits; and, to pay for it, a taxable wage base of $4,800, up from $3,000. Third, he requested, but didn't specify, provisions for paying interstate claims. Fourth, he called for tougher laws on fraud, but a narrower range of disqualifications. Fifth, he proposed financial arrangements to provide for "reinsurance grants" to fund states that approach trust fund insolvency

(Truman, 1950). All told, his recommendations were a sweeping, comprehensive appeal for federal control.

In August, Truman signed the Social Security Act Amendments of 1950, which contained an extension of federal advances to state trust funds, but no new federal standards. More significantly, the Amendments included the Knowland Amendment that limited the power of the Secretary of Labor to declare state unemployment insurance laws out of conformity with federal law. The Amendment said that the federal government could not withhold administrative funds until the highest state court had ruled on the question of whether the state's "labor standards" provisions were in compliance with federal law. Truman signed the Act, but voiced concern that the Knowland Amendment would force workers to accept employment "at substandard wages or working conditions" (Congressional Quarterly Almanac, 1950).

In November, the CIO convention passed a resolution continuing to advocate a federal unemployment insurance program and specifically condemning the Knowland amendment.[14] It included a fall back position that, "if congressional support for such a national system cannot now be obtained," an "interim step" would be federal standards, extended coverage, reinsurance grants, abolition of experience rating, and additional benefits for servicemen

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14 The resolution dealing with unemployment insurance included a call for national employment services offices and "effective measures to end discrimination against Negroes and women" (CIO, 1950).

and federal employees. That resolution, and subsequent testimony, also resoundingly condemned the Interstate Conference of Employment Security Agencies for undermining the goals of unemployment insurance (CIO, 1950).

It was not until December, 1950, that hearings were held on HR 8059 which embodied Truman's call for federal standards. Ten of the speakers were from labor organizations, three from employers (the Missouri State Chamber of Commerce, the Tennessee Wholesale Grocers, and a letter from the U.S. Chamber of Commerce), and the rest from the Truman administration or civic organizations. In addition to the rise in benefit exhaustions, many testified to the fall in wage replacement rates. Table 1.1 compares wage replacement rates in 1939, the first year for which all states reported, and 1950.

[Table 1.1]

In 1939, only three states were close to or above a 50 percent wage replacement rate (Utah, New Mexico, and Wyoming). By 1950, the highest state (Utah) paid only 45.6 percent of lost wages. Between 1942 and 1952, the average wage replacement rate under state programs dropped about 10 percentage points.

An important development was the presentation by Administration officials--both Maurice Tobin, Secretary of Labor and Robert Goodwin, Director of the Bureau of Employment Security--using Congressional testimony to speak to the issue of disqualifications and to call for federal action (Tobin, 1950; Goodwin, 1950). During questioning, Tobin went so far as to say "I do not believe that a worker's wage credits should be canceled under any circumstances" (p. 52). States can treat disallowed behaviors in three ways. They can 1) impose defined penalty periods, 2) impose "durational disqualifications" which keep a claimant from receiving benefits for the duration of their unemployed spell, or 3) reduce or cancel benefit rights. A state with durational disqualifications, but no reduction of benefit rights, would allow an unemployed worker to claim his or her full prior entitlement after finding new employment following a disqualifying act. Some states combine durational disqualifications and benefit reductions or eliminations, meaning that the benefit reductions follow the worker to his or her next job. Table 1.2 is a reprint of Director Goodwin's submission on disqualifications.

[Table 1.2]

It shows that durational disqualifications were increasing as early as 1950. The trend, as we'll see, continued into the 1980s without federal intervention.

A submission from the U.S. Chamber of Commerce made arguments that would echo throughout the history of the federal standards debates.[15] First, federal standards were said to be "a practical invasion of functional areas traditionally reserved to the States". Second, unemployment insurance should never extend beyond "temporary periods of involuntary unemployment." Third, federal action is unnecessary because "where the need actually exists for further revision of [state] programs, [states] can be counted on to take the initiative" (Miles, 1950). These three defenses (states' rights, insurance not welfare, the system works) were destined to be repeated at every juncture in the federal standards debate.

In the end, HR 8059 was doomed by employer and state agency resistance despite the undeniable slippage of wage replacement rates and increase in exclusionary practices. The subcommittee on Unemployment Insurance of the Committee on Ways and Means never issued a report to the full Committee. In 1952, bills by Moody and Dingell (S 2504, HR 6174), Mills (HR 4133) and Forand (HR 6954) were advanced to supplement unemployment insurance for defense workers, for

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15 Unlike the Chamber of Commerce arguments, Secretary of Labor Tobin's belief that unemployment insurance is anti-communist was not oft-repeated. He said: "Our private enterprise system has become much stronger, and there is very little room in America for false ideologies, certainly very little room for communism and such philosophies, because the Congress back in 1935 had the courage and the intelligence to go forward with the kind of a program that has made this a healthier America" (Tobin, 1950).

federal loans to states, and for grants to states, respectively. Neither Senate nor House Committees took action following testimony (Congressional Quarterly Almanac, 1952).[16]

Eisenhower

Between 1953 and 1954, the unemployment rate spiked from 2.9 percent to 5.5 percent and average unemployment durations rose by 3.8 weeks (to 11.8 weeks). Eisenhower's unemployment insurance program took one step back from the federal standards debate, but kept the issue alive. The 1954 Economic Report of the President called for extensions of coverage and non-interest bearing loans to states, but no federal standards (Council of Economic Advisors, 1954). Eisenhower did, however, state to Congress that "States raise these dollar maximums so that the payments to the great majority of the beneficiaries may equal at least half their regular earnings" (Eisenhower, 1954). This opened debate about the meaning of "great majority" and what federal action would follow if such change did not occur.

Hearing were held in June before the House Ways and Means Committee on five bills to extend coverage and provide grants to states suffering insolvency. It is noteworthy

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16 Testimony by Emil Mazey of the UAW CIO was characteristic of the stinging oratory of the period. He cited federal support for corporations and emergency food for cattle in South Dakota. "We believe that we ought to treat human beings at least as well as we treat cattle" (Mazey, 1952).

that James Carey, Secretary-Treasurer of the CIO, testified on behalf of HR 9430, a bill with federal standards for benefits and disqualifications that was not a formal subject of the hearings! In 1954, Congress passed a revised Title XV of the Social Security Act to cover federal employees and extended coverage to firms with four or more employees. No action was taken toward federal standards for benefit levels, durations, eligibility, or penalties.

In 1958, benefit exhaustions were mounting once again. Senator John Kennedy emerged as an advocate of extended benefits in all states and coverage extensions (S 3244). In March, Eisenhower countered with a proposal that states temporarily extend their benefits by 50 percent. If states did not, the federal government would take over program administration in recalcitrant states (HR 11679).[17] In April, House Ways and Means reported a bill containing a 16-week extension for exhaustees. On May 1, the House voted instead for a voluntary plan, granting federal aid to states that chose to extend benefit durations. Kennedy offered two amendments to strengthen the measure. Both failed. The Senate voted 80 to 0 to support the voluntary plan. George Meany, AFL-CIO President, called it "the biggest hoax ever perpetrated on the unemployed workers of America" (Congressional Quarterly Almanac, 1958).

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17 The threat was hard to take seriously. In 1958, when Eisenhower threatened to take action, no state had matched the goals he had proposed for them in 1954.

In 1959, Kennedy again lead the charge for unemployment reform. His bill (S 791) went further than what he attempted in 1958, including uniform benefit duration of 39 weeks and payments of not less than 50 percent of average weekly earnings. Its companion bill in the House, HR 3547, sponsored by Representative Karsten, included: a maximum benefit standard of two-thirds of state average weekly wages, benefits averaging at least 50 percent of an individual's average weekly wage up to the maximum, 39 weeks of benefits, an earnings requirement of 30 times weekly benefits, coverage of employers with one or more employee, and reinsurance grants.

Instead of broad reform, the House and Senate voted to extend the voluntary Temporary Unemployment Compensation Act for three more months in March of 1959. On March 23, 1959, Eisenhower reiterated his contention that unemployment insurance was strictly a state responsibility (Congressional Quarterly Almanac, 1959). In hearings before the House Ways and Means Committee, Under Secretary of Labor James O'Connell stated the same (O'Connell, 1959). On April 8th, the AFL-CIO held a rally of about 6,000 to support unemployment insurance reform. Between the 7th and 16th, the House held eight days of hearings, producing over 1,000 pages of testimony. On May 14th, the Ways and Means committee voted against HR 3547 and other bills containing federal standards, despite the fact that the average benefit amount had slipped to one-third of average weekly wages and

30 percent of claimants exhausted benefits in 1959. On the 18th, the Committee ended discussion without agreeing on unemployment insurance reform of any kind. It even rejected, 11-13, a statement calling on states to raise their standards, as Eisenhower suggested, because opponents felt that states would feel too much pressure from such a statement (Congressional Quarterly Almanac, 1959).

Kennedy-Johnson

As a Senator, Kennedy had been consistently rebuffed in his efforts for extended benefits and federal standards. As President, changes in unemployment insurance were a high priority. Within a month of taking office, Kennedy proposed a bill to temporarily extend benefit durations by up to 13 weeks on a voluntary basis using federal funds. This passed both houses and became law on March 24th.

In 1963, Kennedy sent a message to Congress requesting numerous federal standards for unemployment insurance. His bill included: coverage extensions; a federal extended benefits program of an additional 26 weeks for workers with long prior employment records; benefits of 50 percent of a worker's weekly wage up to a maximum 50 percent of the state average wage, increasing to 66 2/3 percent by 1970; grants to equalize state benefit burdens; a $5,200 taxable wage base by 1966; and an additional FUTA tax of .3 percent. In fact, the only unemployment insurance legislation that

passed was two laws to reduce FUTA tax burdens (Congressional Quarterly Almanac, 1963).

President Johnson tried again in 1965. Much like the Kennedy proposal of 1963, HR 8282 and S 1991 contained coverage extensions, benefit level and duration requirements, federal extended benefits for 26 weeks, a taxable wage base to match the Social Security wage base, maximum disqualification periods of six weeks for most infractions, provisions for interstate claims, and allowance for unemployed workers enrolled in training programs. Hearings in the House ran through the entire month of August, 1965 and concluded in March of 1966, filling six volumes.

The sixth volume of testimony was gathered in March of 1966 and deals solely with testimony from the Interstate Conference of Employment Security Agencies (ICESA) regarding HR 8282. The hearing was a presentation coordinated by the chair of ICESA, Eldred Hill. Each speaker addressed a specific aspect of the legislation, presenting the consensus from the national conference of ICESA in Phoenix. Given the history of ICESA in resisting federal standards, the testimony of James Rosbrow, Employment Security Commissioner of Delaware, is worth quoting at length:

> "The feeling of the majority of the members of the Conference in Phoenix, Arizona and without much question of the majority of the States concerned in the program, is that the inequities between States have become wider and wider. Twenty States do have a guaranteed 50-percent

> benefit. The other 30 States vary, depending on a variety of benefit formulas. It has been felt by a great many people for a long time that if unemployment compensation benefits could not meet minimum nonenforceable needs, they were shooting far off target, and not providing the basic support that the act was originally designed to meet...We believe, and so does the majority of the state administrators, that the time has come for the Federal Government to set some minimum standards in this area" (p. 57).

ICESA recommended a benefit standard of 50 percent of gross weekly wages. No bill was passed.

Nixon

In July of 1969, Nixon issued a statement on unemployment insurance to Congress that included numerous federal standards, coverage extensions, and extended benefits (Nixon, 1969). Taking a cue from Eisenhower, Nixon set a standard that "80 percent of insured workers should be able to receive a benefit equal to one-half of their wages," or, said differently, "a maximum of two-thirds of the average weekly wage in the state" (p. 3). But, as with Eisenhower, the threat of federalization was veiled: "Up to now, the responsibility for determining benefit amounts has been the responsibility of the States...I call upon the States to act within the next two years to meet this goal, thereby averting the need for Federal action" (p. 3). The bill that Nixon advanced did not set a two year timetable for state action, specify state targets, nor suggest what

federal action around benefit standards would be "averted" by state action.

HR 12625 was the Nixon Administration's vehicle for reforming unemployment insurance. It included federal limits on disqualifications. Section 121(a) barred states from imposing cancellation or total reduction of wage credits for any offenses other than fraud, misconduct, or disqualifying income.[18] It also expanded the taxable wage base (to $6,000 by 1973) and introduced a federal extended benefit program with an unemployment rate trigger. At the same time, it proposed monetary earnings qualifications that were higher than those in 20 states (US Department of Labor, 1969).

AFL-CIO testimony went straight to the issue of federal standards. They called for federal standards to match the appeal of the Nixon administration for a 50 percent benefit standard. On disqualifications, they said "the provisions in the bill implies (sic) that the Administration recognizes the basic injustice of these practices, but the bill would not eliminate them" (Fair, 1969). They called for federal standards on disqualifications and a maximum six week postponement of benefits.

ICESA (Rothell, 1969), the US Chamber of Commerce (Hibbard, 1969), and the National Association of Manufacturers (Lumb, 1969) lined up in support of coverage

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18 The language on disqualifications was lifted from HR 15119 of 1966.

extensions and an extended benefits program, but opposed the disqualification provisions. Representative Schneebeli and Chairman Mills drew out the core of ICESA's resistance. Schneebeli at one point seems exasperated, saying to Rothell of ICESA: "If we could differentiate here which provisions you oppose for the principle and which you oppose merely because they are becoming Federal standards, I think there is more meaning to your whole summary" (p. 348). Later, Chairman Mills and the witness have this dialogue:

> Chairman Mills: "Aren't all these matters...all of them really Federal standards?...And if there is opposition to it within your organization, it is because it is a Federal standard rather than because of the merits, is that not right?"
>
> Mr. Rothell: "I think in most cases; yes, sir" (p. 349).

Employer groups consistently characterized the bill as unnecessary federal intervention. In a strange twist, many employer representatives stated that federal intervention was too strong a measure for such easily reached standards--as if they would favor intervention for really tough standards!

In the end, the Employment Security Act Amendments of 1970 imposed few restrictions on states and made few demands on them, except asking them to pay for half of a triggered Extended Benefits (EB) program. The acts established a permanent EB program, extended coverage, and expanded the federal taxable wage base to $4,200. The wage base expanded

by less than half of what Nixon proposed for its 1973 level and $200 less than what he proposed for the first of several increases. It was the first increase in the taxable wage base since 1939. Section 3304(a)(10) prohibited the cancellation of wage credits or total reduction of benefit rights except for misconduct in connection with work, fraud in a claim, or receipt of disqualifying income. These prohibitions, as will be shown, proved less restrictive than they might appear.

The 1970 establishment of a permanent EB program proved a fateful juncture when, five years later, unemployment rates hit a then post-War high. The reality of the new world trade situation was coming to bear on the U.S. economy. In 1975 Nixon returned to the issue of federal standards for UI. At that time, the Subcommittee on Unemployment Compensation of the House Ways and Means Committee held a series of three sets of hearings. The first and second hearings were on existing programs and temporary benefit extensions (April and May, 1975). The third was on permanent changes (July, 1975). In April, John Dunlop, Secretary of Labor, introduced concepts that he would later present as legislation. These included new triggers for a single, permanent extended benefits program; an unspecified increase in the taxable wage base; "legislating" to improve benefit amounts; and a federal commission to study unemployment insurance reform. The administration introduced HR 8614 to accomplish these goals.

When Dunlop testified again in August, he explicitly advocated federal standards for benefit levels, setting the standard "proposed by all presidents beginning with Eisenhower"[19] of at least 80 percent of insured workers receiving at least half their previous wages.

The president of ICESA, Frank Walsh, testified in support of the federal benefit standard Dunlop advocated. Moreover, he stated that "although the state agencies have long accepted the principle that the maximum should be at least two-thirds of the statewide average wage, they have found it difficult to achieve this objective due to the competitive factor on program costs" (Walsh, 1975). Although some states in his organization voted against federal standards, a majority voted in favor of them, a significant confirmation of ICESA's change of position since the 1940s.

The AFL-CIO supported HR 8366 which included federal standards for benefit levels, duration, and disqualifications (Seidman, 1975).[20] The National Association of Manufacturers counseled the "preferability of preserving the federal-state structure", citing its

19 Actually, the first was Truman.

20 There were still glimpses of the CIO commitment to a federal program even in 1975. Leonard Woodcock, president of the UAW, testified that "the best answer" for financing was full federal funding through a uniform national tax, but, given the political realities, endorsed additional federal support as "a step in the right direction" (Woodcock, 1975). It is also interesting that the UAW opposed the National Commission on the grounds that "this is time for action--not study."

"flexibility" and "greater responsiveness to the diverse effects of economic conditions" (Craiger, 1975). Surprisingly, the Chamber of Commerce spoke for benefit extensions, though they maintained their opposition to federal benefit standards (Kreyling, 1975).

The Unemployment Compensation Amendments of 1976 extended coverage to state and local government employees and some agricultural household employees, expanded the taxable wage base, raised the FUTA tax rate, and revised the Extended Benefit triggers. They contained no federal standards for benefits, duration, or disqualifications. Instead, as explored in the next section, they authorized a National Commission on Unemployment Compensation.

The National Commission on Unemployment Compensation

The Commission chair was Wilbur Cohen, LBJ School of Public Affairs and its Executive Director was James Rosbow. Bert Seidman (AFL-CIO Social Security Department), Ken Morris (UAW Region 1B), Edward Sullivan (SEIU), and Wilbur Daniels (ILGWU) were labor representatives. Employer representatives were Beatrice Coleman (Maidenform), Warren Cooper (Kaiser Aluminum), John Crosier (Massachusetts Business Roundtable) and Dolores Sanchez (Eastern Group Publications). Public members were Walter Bevins (Mississippi Employment Security Commission), Eldred Hill (Unemployment Benefit Advisors), Alphonse Jackson (Louisiana

House of Representatives), and Mary Rose Oakar (US House of Representatives).

The Commission released an interim report in 1978 and a final report, including three volumes of supplementary research, in July of 1980.[21] Their remit was broad: to review the practice of the entire unemployment insurance system in the United States for the first time since the Committee on Economic Security. The final report contains recommendations for coverage, benefit adequacy, longer-term unemployment, financing, administration, intergovernmental regulations, relationships to other programs, and women in the unemployment insurance program. The Commission offers recommendations for both state and Congressional action.

The Commission was pivotal for its scope, but for purposes of this discussion a narrower look is needed. The Commission was a high water mark for the federal standards debate, the peak of awareness of the need for quantitative standards and federal intervention. Unfortunately for claimants in the 1980s, it is also noteworthy for the failure of its vision to reach realization. The core federal standards arguments in the report are around benefit adequacy:

Earnings requirements. The Commission stopped short of suggesting federal standards for work requirements, instead

21 The International Union, UAW released a supplemental report to the National Commission in April, 1979, presented by president Doug Fraser.

admonishing the states to avoid flat dollar amount earnings requirements (suggesting weeks of work or percentage of wages formulas instead), and ideally to adopt a maximum demand of 39 weeks work with a minimum of 14 weeks. In their recommendation for benefit duration, a maximum earnings requirement was included.

Benefit levels. By a vote of seven to five, the Commission recommended federal standards for benefit levels equivalent to those repeated since Eisenhower: a maximum of not less than two-thirds of average weekly wages in covered employment, with the majority of claimants receiving 50 percent or more or their previous average weekly wage. The dissenters on the Commission raised the specter of full federalization if benefit levels were set nationally.

Duration of benefits. The Commission recommended (seven to five) an "initial" federal standard of no more than 39 weeks work for 26 weeks benefits. They also recommended that the standard should move gradually to less than 39 weeks. They did not set a federal standard for benefit duration, instead recommending that states provide at least 26 weeks and have no more than a one week waiting period. Cooper and Hill dissented on the waiting period. Daniels, Morris, and Seidman opposed any waiting period.

Disqualifications. The Commission stated that "in the area of cancellation of benefit rights (other than fraud), the trend has been so strong that the Congress should intervene to correct what is widely regarded as a loophole

in the Federal law" (p. 48). Accordingly, by an eight to two vote with one abstention, the Commission recommended federal standards to limit reduction of benefit rights to fraud or receipt of disqualifying income.

The list of recommendations for state action was lengthy: no disqualification for "good cause" voluntary quits (including sexual harassment), "misconduct" should be related to the claimant's employment, "suitable work" should be decided case-by-case, when a claimant anticipates recall they should not be disqualified for refusing work during the first six weeks of unemployment, and that disqualifications should not include a reemployment and earnings requirement. The latter would have stricken down durational disqualifications, about which more will be said below. These recommendations were adopted by five to four with two abstentions. Two more blows were struck against durational disqualifications and reduced benefit rights. First, the Commission voted against any disqualification that would apply to a claimant's next job. Second, they recommended that states disqualify "for a variable period of weeks within a minimum and maximum" (p. 49). Both recommendations were directly aimed at durational disqualifications and passed by nine to zero with two abstentions. It is highly significant that Cooper and Hill, who voted against almost all restrictions on states' rights, abstained instead of voting "nay".

By almost unanimous decision (one nay), the Commission stated that no state should have laws or regulations "that would automatically disqualify an individual who had a recent record of steady part-time employment" (p. 49). Given the vagueness of "automatically", "recent", and "steady", the near unanimity of the Commission is surprising and can only indicate that they believed part-time workers were badly served by state laws.

By eight to three, they argued that states should not disqualify a claimant who became temporarily ill or disabled after filing, provided that no suitable work is offered them. By eight to two with one abstention, the Commission recommended <u>against</u> specific "actively seeking work" requirements, instead supporting a standard of "doing those things which a reasonably prudent person in his or her circumstances would do to find work" (p. 49).

Benefit taxation. The Commission recommended repeal of the then-existing partial taxation of unemployment insurance benefits.

Despite the fanfare of setting up the Commission, their recommendations in keeping with 40 years of pressure from presidential administrations, and the seriousness of debate and research during their deliberations, the recommendations of the Commission were never translated into federal legislation. In fact, ICESA, which had been steadily endorsing increased federal standards, reversed itself on

many recommendations. Appendix A shows the fate of each of the Commission's recommendations as of 1993. As the next chapter will show, throughout the 1980s most state legislatures acted distinctly contrary to Commission recommendations.

Summary

The assumptions about economic behavior upon which the Social Security Act was founded, and which have remained in effect despite repeated efforts by reformers, were no longer tenable when the National Commission issued its report, and they have proven less so during the 1980s. At the same time, only marginal changes have been made to the program as the economic situation in which it operates has been vastly transformed, making the program almost anachronistic. This has proven particularly true for women as the "male breadwinner" model of unemployment recipients (Pearce, 1993; Pearce, 1991) becomes increasingly unrepresentative of the experience of most workers.

Taking each underlying assumption in turn:

1. It is an insufficient understanding to assume that most unemployment spells are brief. In 1992, only 34.8 percent of all unemployment spells were less than five weeks duration and 20.6 percent of the unemployed were out 27 weeks or more. In 1990, before the current recession really

took hold, 21.9 percent of the unemployed were out of work 15 weeks or more.

2. Significant numbers of the unemployed today are not likely to return to their previous employers. Indeed, as will be seen in Chapter Four, more and more of the unemployed are changing industries and/or occupations upon reemployment.

3. Job losers on layoff are a smaller portion of all unemployed workers. In 1992, job losers were slightly more than half of all unemployed workers (56 percent), but job losers on layoff were less than one-fourth of all job losers (24 percent). The graph below shows how consistently small a portion of all job losers are job losers on layoff.

[Graph 1.1]

Moreover, as will be seen in Chapter Three, recessionary increases in job losers as a percentage of all unemployed are no longer sufficient to boost the percentage of the unemployed receiving benefits because state programs are frequently excluding even these "involuntary" unemployed. In part this is due to an increase in the number of unemployed who appear, under current criteria, to be "casual workers" as excluded from the system since the beginning (Pearce, 1991). Also, job losers' application rates have

fallen, so they are less likely to receive benefits than they were in the past (Blank and Card, 1989).

Because the decline in unemployed workers anticipating recall is central to the analysis and reform proposal presented here, Graph 1.2 illustrates another aspect of the changing experience of unemployment.

[Graph 1.2]

The graph shows two important facts. First, during the preceeding four recessions, it was never true, as the Committee on Economic Security assumed, that most of unemployed expected to return to their previous employers. Second, the most recent experience shows how dramatically wrong that assumption has become. During the most recent contraction, only 14 percent of unemployed job losers expected to be recalled.

4. Experience rating proves increasingly ineffective, if it ever was effective, as a spur to maintain employment (Wagman, 1982). This is true because (1) the forces affecting employment levels are well beyond the control of most employers, and (2) the wage base has been eroded so much that UI is a tiny portion of total business cost. The graph shows UI taxes as a portion of total business cost for an average Michigan manufacturer.

[Graph 1.3]

As tax rates and taxable wage bases have fallen, experience rating has become less of an incentive to maintain production. At the same time, the changing economy provides less firm-level control over employment if a firm did want to respond to experience rating. Neoclassical economists acknowledge the incapacity of experience rating and support higher maximum taxes and broader taxable wage bases to make experience rating more effective (Kaiser, 1987; Feldstein, 1978; Topel, 1983). But both suggestions run counter to actual legislative trends. More problems with experience rating are discussed in Chapter Four.

From its inception, the unemployment insurance program also had a more fundamental, fatal flaw. Its founders acknowledged the role of interstate competition in blocking efforts by states to enact legislation. They countered with a federal, uniform tax. But they simultaneously allowed wide variation in state tax rates and granted full power to states for setting benefit levels and defining most claimants' rights. In the process, they badly underestimated the pressures that would be placed on state legislatures to reduce benefits, durations, and eligibility in times of economic stress.

Lurching from crisis to crisis, organized on outmoded assumptions, the unemployment insurance system has not been fundamentally reformed in the United States since 1935. In the 1940s, the labor movement and the Social Security Board

advocated a federal program. In the 1950s, the focus shifted to federal standards, where debate has remained. New crises arise with the end of wars (WW II, Korea, Vietnam) and lengthening recessions (the 1970s, the 1980s), but the opportunity to comprehensively restructure the unemployment insurance program--or programs--has never been realized.

The federal government has, from the beginning, (1) controlled a federal tax with credits for conforming states, (2) specified coverage levels, and (3) imposed some definition of labor standards. The one significant expansion of the federal role has been Extended Benefits, a program subject to the vast vicissitudes of political winds. The states, on the other hand, have always controlled (1) benefit levels, (2) benefit durations, (3) most aspects of initial and continuing eligibility, and (4) effective tax rates under experience rating. Through almost 60 years of tension, the federal government has merely policed the borders of a program established on the basis of outmoded economic assumptions operative before World War II.

The sweep of history shows how accurate this perspective is. When unemployment soars, temporary extensions of benefits follow, but more significant federal action never does.

[Graph 1.4]

In the graph above, the legislation in boxes was enacted. The other bills are attempts to legislate federal standards, all of which failed. This paper explores the cost of that failure for most of the unemployed during the 1980s.

When the Committee on Economic Security released its 1935 report, they clearly believed unemployment durations would be brief, that most workers would return to their previous jobs, and that a 50 percent wage replacement rate would prevail without federal intervention. When these assumptions proved wrong over time, the efforts of powerful interests that supported state programs insured that legislation around federal standards would be defeated, even when ICESA supported a bigger federal role. Thus, the federal-state unemployment insurance program entered the 1980s without new standards despite decades of effort by Republican and Democratic Presidents alike and the recommendations of a National Commission. The next chapter shows how states used their prerogatives during the 1980s.

TABLE 1.1
Wage Replacement Rates, 1939, 1950
Average Benefit / Average Weekly Wage (%)

State	July-Sept. 1939	Jan.-Mar. 1950
Alabama	41.7	34.6
Arizona	44.5	39.4
Arkansas	40.2	41.1
California	38.1	36.6
Colorado	45.8	36.4
Connecticut	36.3	37.0
D.C.	32.2	32.3
Delaware	35.8	29.6
Florida	47.0	28.5
Georgia	39.1	31.1
Idaho	45.7	37.2
Illinois	45.0	30.1
Indiana	43.3	31.0
Iowa	44.2	36.5
Kansas	43.3	38.2
Kentucky	38.4	32.1
Louisiana	40.5	44.5
Maine	34.2	31.9
Maryland	40.4	41.2
Massachusetts	36.3	45.0
Michigan	46.3	36.3
Minnesota	42.5	34.0
Mississippi	38.8	36.9
Missouri	36.0	31.6
Montana	46.0	35.9
Nebraska	37.8	35.7
Nevada	49.5	39.1
New Hampshire	39.7	39.1
New Jersey	36.3	33.7
New Mexico	52.0	35.0
New York	39.6	35.7
North Carolina	32.7	33.1
North Dakota	44.4	40.7
Ohio	38.1	39.3
Oklahoma	41.1	33.7
Oregon	41.8	36.8
Pennsylvania	47.2	39.7
Rhode Island	44.1	43.6
South Carolina	41.7	39.6
South Dakota	39.5	36.3
Tennessee	38.6	32.0
Texas	72.3	31.3
Utah	49.3	45.6
Vermont	36.3	42.0
Virginia	40.3	34.8
Washington	44.8	36.3
West Virginia	30.3	36.4
Wisconsin	39.1	39.0
Wyoming	59.3	45.2
TERRITORIES		
Alaska	38.2	32.3
Hawaii	54.0	41.7
US AVERAGE	42.1	36.9

Source: US Department of Labor, Bureau of Employment Security.
Goodwin, 1950.

TABLE 1.2
Durational Disqualifications, 1937 and 1950

—States which provide (1) disqualification for the duration of unemployment or (2) reduction or cancellation of benefit rights, for the three major issues, specified dates, 1937 and 1950

1. DISQUALIFICATION FOR DURATION OF UNEMPLOYMENT

VOLUNTARY LEAVING

Dec. 30, 1937	Dec. 1, 1950
None	10 States:[1] Alabama,[2 3] Delaware, Florida,[3] Maryland,[3] Massachusetts, Michigan,[4] Missouri,[3] New Hampshire,[3] New Jersey,[3] Pennsylvania.

DISCHARGE FOR MISCONDUCT

1 State: Mississippi	7 States:[1] Delaware, Florida,[3] Maryland,[3 5] Massachusetts, Michigan,[4] Missouri,[3] Pennsylvania.

REFUSAL OF SUITABLE WORK

4 States: Delaware, California, Oklahoma,[3] New York.	11 States:[1] Alabama,[2] [6] Delaware, Florida,[6] Iowa, Maryland,[3] Michigan,[4] Missouri,[3] New York, Ohio, Pennsylvania, Wisconsin.[3]

2. REDUCTION OR CANCELLATION OF BENEFIT RIGHTS

VOLUNTARY LEAVING

5 States: Connecticut, Massachusetts, Missouri, Ohio, Wisconsin.	17 States: Alabama,[3] Arizona, Colorado, Georgia, Indiana, Iowa,[7] Maine, Michigan,[4] New Mexico, North Carolina, Ohio, South Carolina,[8] Texas, Virginia, West Virginia,[9] Wisconsin, Wyoming.

DISCHARGE FOR MISCONDUCT

6 States: Connecticut, Massachusetts, Missouri, North Carolina, Ohio, Wisconsin.	16 States:[10] Alabama, Arizona, Colorado, Georgia, Indiana, Iowa, Maine, Michigan,[4] New Hampshire, New Mexico, North Carolina, Ohio, Texas, Virginia, West Virginia,[9] Wisconsin.

REFUSAL OF SUITABLE WORK

6 States: Connecticut, Massachusetts,[4] Missouri, Ohio, Rhode Island,[6] Wisconsin.	16 States: Alabama,[3] Colorado, Florida,[6] Georgia, Indiana, Maine, Massachusetts,[6] Nebraska, New Mexico North Carolina, Rhode Island,[6] South Carolina,[8] Texas, Virginia, West Virginia,[9] Wyoming.

[1] Disqualification continues until individual is reemployed, either for a specified period or has earned specified wages, usually in relation to his weekly benefit amount.

[2] Alabama disqualifies for the duration of unemployment and also reduces benefit rights for refusal of suitable work and under its voluntary leaving provision.

[3] Excludes Idaho because ineligibility can be removed by reemployment or by a satisfactory showing by a claimant that he is diligently seeking work after a period of not less than 6 weeks following separation from employment.

[4] Michigan disqualifies for the duration of unemployment and also reduces benefit rights under the voluntary-leaving and misconduct disqualifications. For refusal of suitable work, Michigan also disqualifies for the duration of unemployment and reduces benefit rights if the suitable work which has been refused was offered by a base-period or the last employer. Michigan's reduction of benefit rights under these special circumstances has not been included in the enumeration of States which reduce benefit rights for refusal of suitable work.

[5] Disqualification applies to deliberate and willful misconduct; for disciplinary suspension or discharge for misconduct, a maximum 10 weeks postponement is imposed.

[6] Florida's suitable-work provision disqualifies until claimant has earned 10 times his weekly benefit amount and has an optional reduction in benefit rights.

[7] By interpretation by Supreme Court of Iowa.

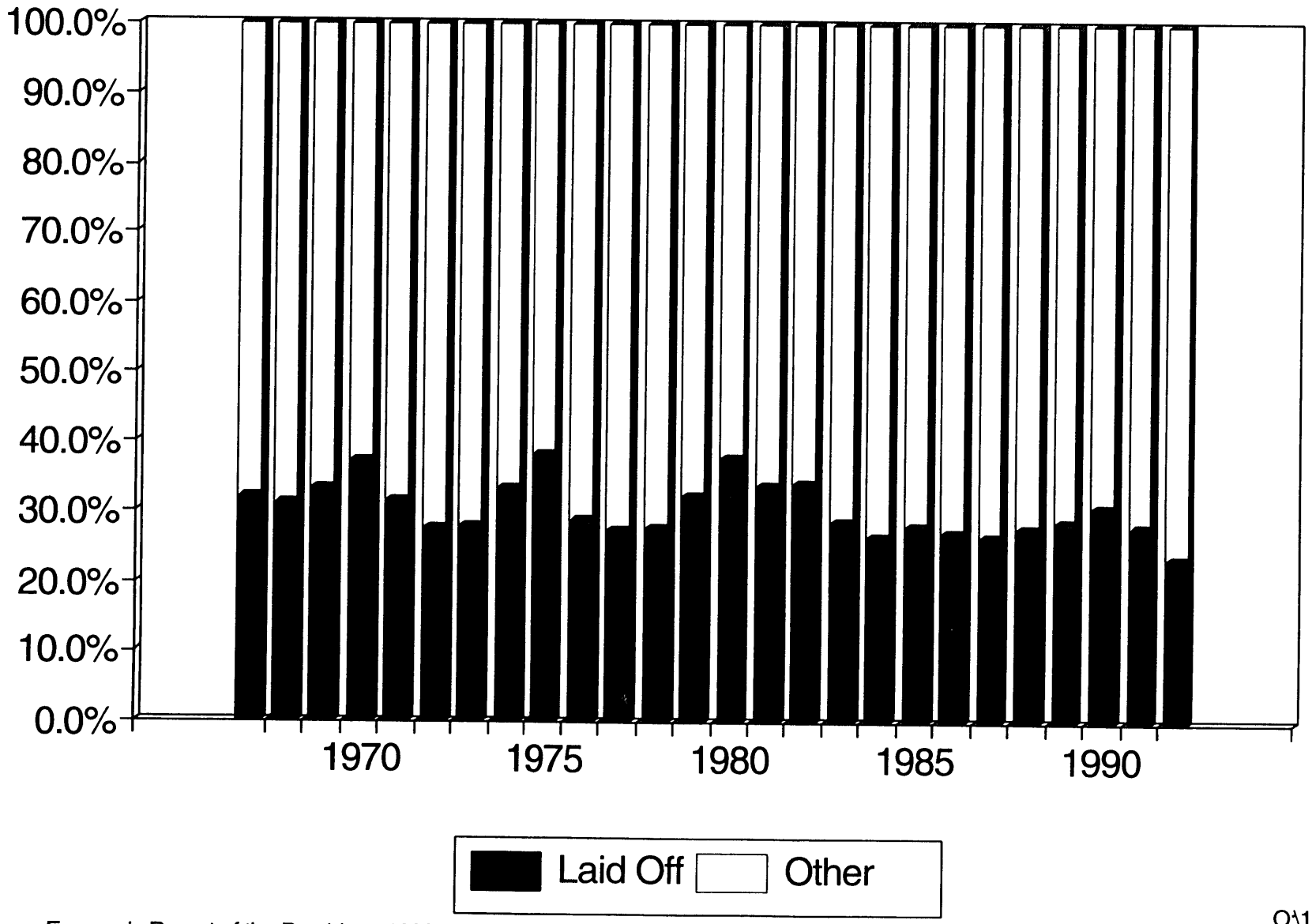
[8] Optional.

[9] Claimants who have been disqualified under these provisions and who return to covered employment during the benefit year are recredited with the amount of the previous reduction.

[10] Does not include South Carolina, which has an optional reduction in benefits in cases of aggravated misconduct.

Graph 1.1

Job Losers Laid Off or Lost Jobs for Other Reasons



Source: Economic Report of the President, 1993

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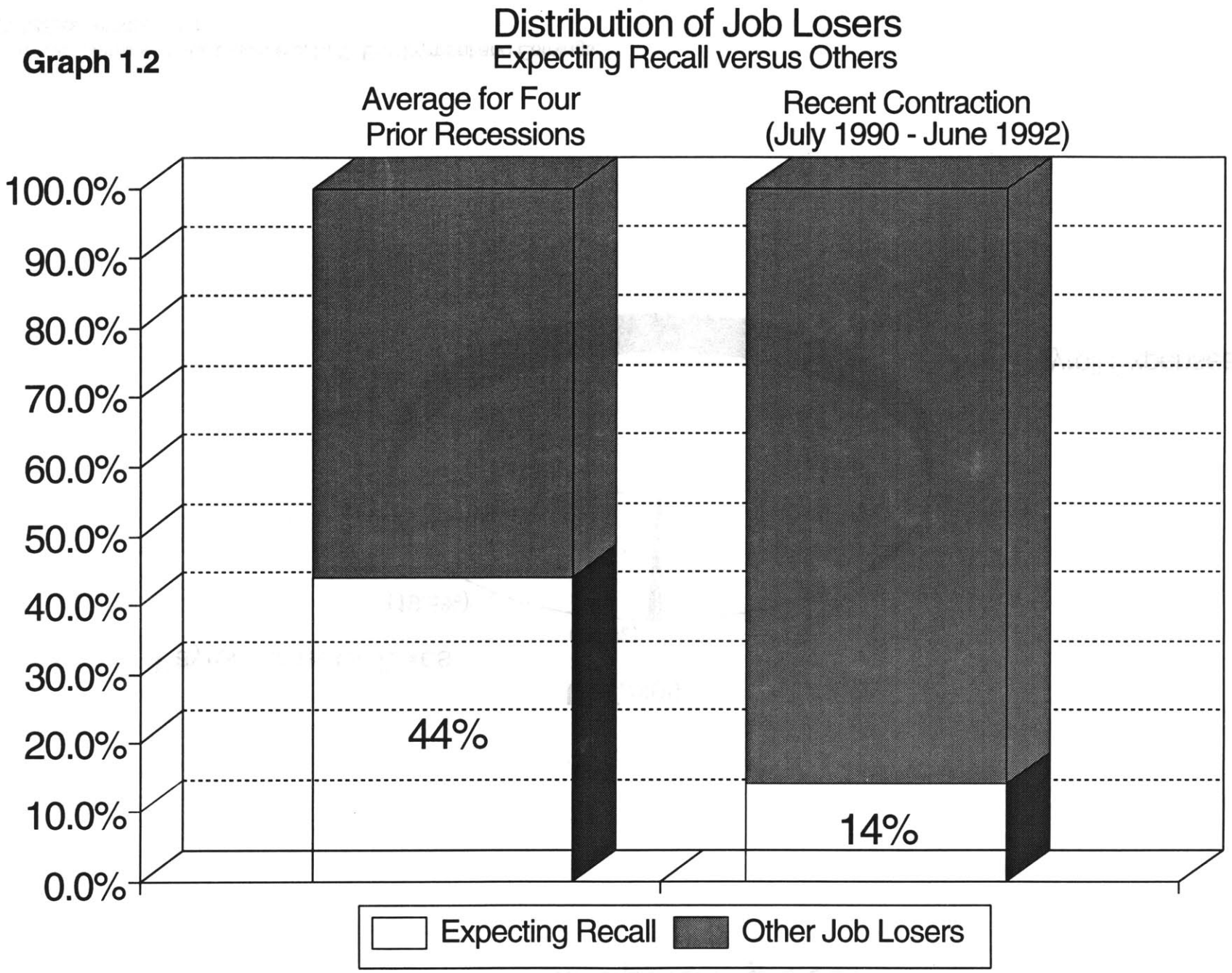
Graph 1.2

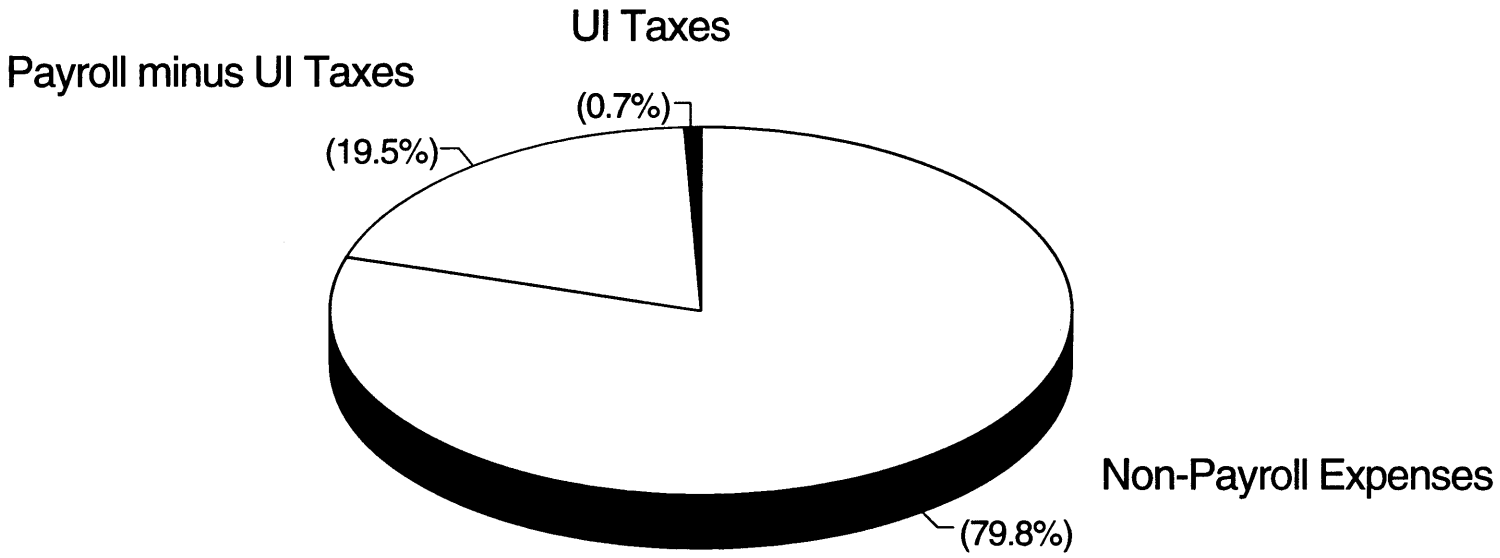


Source: Plewes, 1993.

B: Ch4 Lose%

Graph 1.3

UI Tax as Portion of Total Operating Cost



Sources: Census of Manufacturers; BLS, Employment and Earnings.
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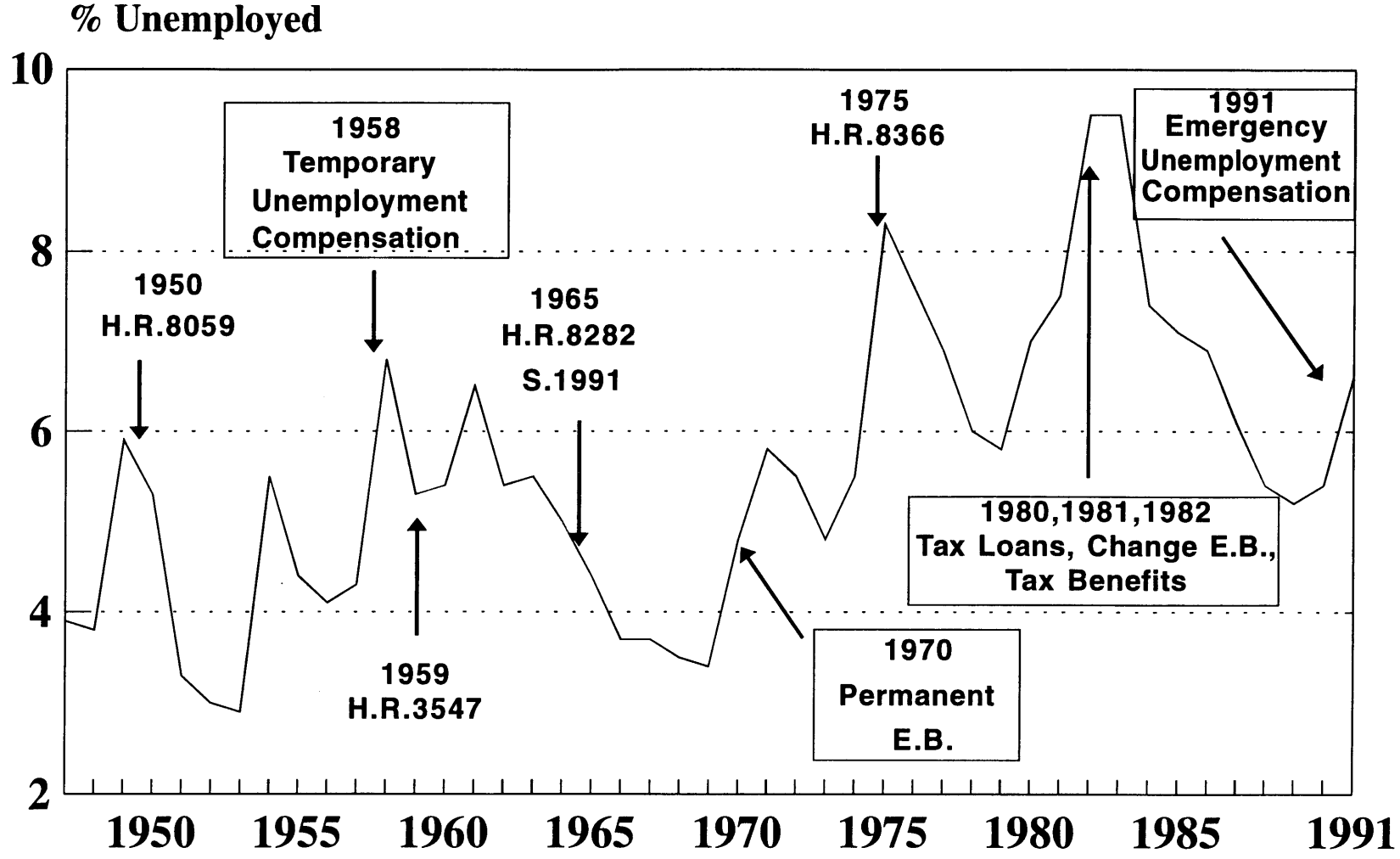
Unemployment Rates and U.I. Legislative History



Source: Unemployment from Employment and Earnings.
Legislative history compiled by author.

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Chapter Two
State's Rights and State Wrongs in the 1980s

The report of the National Commission on Unemployment Compensation could have been a rallying point for refashioning the unemployment insurance system by increasing the federal role and bolstering claimants' rights. Instead, the 1980s were a period of profound backsliding away from the goals of the Social Security Act of 1935. The discussion that follows will show how the combined pressures of a New Right federal partner and intensified economic competition working through state-level programs drove efforts to restrict claimants' rights. In the next chapter, the effects of these punitive efforts on benefit recipiency rates will be quantified.

The Changing Economy and Trust Fund Reserves.

The loss of manufacturing jobs, declining profit margins, and high business failure rates identified in the Introduction have clear ramifications for relationships within and among state programs. Throughout the years since the 1970s, states have been engaged in a bidding war for jobs (Bluestone and Harrison, 1982). That struggle has taken many forms, related to the nature of the changing economy, all adding up to pressure on states to reduce burdens on businesses. For example, the boom in mergers and acquisitions leads to tax concessions and other relief

efforts to try to maintain production in facilities that are weaker links in a conglomerate's expanded portfolio. The growth of overcapacity in basic industry means fewer new plants are built, so the struggle for a dwindling number of new plant constructions grows more intense. Falling profit margins make the minor concessions that states can yield appear more attractive.

Because economic transformation has had different effects in different regions of the country, it might be argued that individual state unemployment insurance programs face a variety of fiduciary pressures. Table 2.1 shows trust fund reserves and the uneven pattern of growth and decline across regions since the 1970s.

[Table 2.1]

Slow employment growth and trust fund difficulties are clearly related, but the relationship is more complicated than at first appears.

The implications of plant relocations and shifting production illustrate some of the issues.[22] Table 2.2 summarizes the effects of plant strategies across states.

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22 Vroman (1986) provides the background for discussing the effect of plant relocations on trust funds (the first row of the table). The logic is extended to other production arrangements by the author.

[Table 2.2]

The state that loses a production facility will face higher program demands as unemployed workers claim benefits (even if they leave the state) and unemployment insurance tax revenues will be lost as the payroll disappears. The state that gains a new facility accumulates new trust fund payments.[23] If the new facility lays people off shortly after opening, those workers may not be eligible for benefits because they may not exceed the monetary eligibility requirement of a state program. The new facility may hire unemployed workers, which lowers the experience rating of other employers. These effects yield a pro-cyclical regional component to trust fund reserves: states that gain plants have higher reserves and need them less.

If production is shifted and downsizing occurs, through mergers and acquisitions or rationalization of production, there are similar relationships, but there is a net loss of trust fund reserves. Layoffs due to changing production strategies yield increased benefit claims in State A, where the layoffs occur. Revenues may increase due to experience rating in State A, unless the employer has reached the

23 Most states have lower than average tax rates for new employers, so they will not accumulate reserves as quickly as they do with current employers.

maximum tax rate prior to the additional layoffs. State B, where production increases, will not gain unemployment insurance revenue unless payrolls increase -- an unlikely event given that rationalizing is usually pursued to limit labor costs not to increase employment. An economic landscape characterized by rationalizing and downsizing, as in the 1980s, will combine increased program demands in states that lose jobs and no increase in revenue in states that gain production. Downsizing, rationalization, and foreign sourcing -- three important trends in the 1980s -- have clear losers and no winners among state unemployment insurance programs.

These relationships go a long way toward explaining the link between the economic transformation discussed in the Introduction, on the one hand, and the changes discussed in the pages to follow. Clearly, the trend toward restructuring and downsizing, foreign sourcing, and shifting production between facilities has had a major impact on trust fund reserves in all states.

The stagflation and inflation of recent years has also had damaging effects on state programs. By 1971, half of the state programs included provisions indexing maximum benefit amounts to some earnings measure within the state. By the middle of the decade, 35 states had such provisions (Vroman, 1986). The revenue side of most state programs -- tax rates and taxable wage bases -- does not usually have similar automatic escalators. Under conditions of

stagflation and inflation, unemployment and maximum benefit levels increase, but revenues will not meet the new demands unless legislatures take specific action. Their willingness to do so is a question explored in detail below.

By the beginning of the 1980s recession, the demands made on unemployment insurance trust funds were overwhelming state efforts to maintain solvency. Graph 2.1 shows the reserve ratio for all trust funds in the United States from 1938 to 1991. The reserve ratio is the ratio of net reserves to total wages paid in covered employment.

[Graph 2.1]

Several points are worth noting about Graph 2.1. First, the reserve ratios of the early years (1940 to 1954) are exceptionally high. A rule of thumb in the trade is that funds with reserve ratios of 2.0 or higher are more than adequately funded to cope with deep recessions. By any measure, reserve ratios averaging higher than 6.0 for several decades are exceptional. Second, although the early experience shows overly-cautious funding, the downward trend since the 1950s is startling, culminating in ratios lower than 1.0 in every year from 1976 to 1986. The pivotal timeperiod, for the U.S. economy, for unemployment insurance trust funds, and for the unemployment insurance program generally, is the 1970s. From 1975 on, the unemployment

insurance system was wracked by crises. The story of how the U.S. unemployment insurance system was reshaped by the new economic situation is largely the story of how trust fund reserves were rebuilt after 1984.

Federal Policy Driving State Changes During the 1980s

Beginning in 1979, the federal government weighed in to the struggle around unemployment insurance, making solvency demands of its own and pursuing program changes that were part of a broader assault on inflation.[24] In 1979, Congress began subjecting unemployment insurance benefits to federal income taxation. Half of that portion of benefits received which raised a family's income above $25,000 ($20,000 for an individual) was subject to tax. That change was extended in 1982 to income above $18,000 ($12,000). In 1987, full income taxation of benefits began.[25] This effectively reduced unemployment benefits in all states (Burtless, 1991b.), reducing effective benefit levels but not aiding states in their battles with trust fund solvency.

Federal legislation around the Extended Benefit (EB) program had more direct effects on state legislative action by (1) virtually eliminating EB payments, and hence the 50 percent state contribution, (2) tightening the monetary qualification for EB and policy toward waiting weeks, (3)

24 The sections on federal and state policy are derived from Baldwin and McHugh, 1992a, 1992b.

25 P.L. 95-600, §112(a), 95th Cong., 2d Sess. (November 1978); P.L. 97-34, §103(c)(1), 97th Cong., 1st Sess. (August, 1981); P.L. 99-514, §121 (October, 1986). (Congressional Research Service, 1988).

changing the definition of "suitable work", and (4) raising requalification demands.

First, the 1981 Omnibus Budget Reconciliation Act (OBRA) raised the EB thresholds, making it nearly impossible for states to qualify for extended benefits.[26] Congress also permitted the temporary Federal Supplemental Compensation program to expire in April 1986. In addition, current EB law requires that a state's insured unemployment rate remain at least 120 percent of the rate for a comparable period two years earlier. As a result, EB was not available during a period of dramatic economic slowdown in many states over the last decade, until the Emergency Unemployment Compensation program in 1991, making the two most recent recessions the only ones since the late 1950s in which the long-term unemployed essentially had no additional benefits for several months after exhausting basic state benefits.[27] As in the predictable historic pattern shown in

26 Before the changes in 1981, a state could trigger on extended benefits if its insured unemployment rate (IUR) was above 4 percent and if its IUR was 120 percent higher than the state rate for the previous two years, or if the state insured unemployment rate was above 5 percent. The 1981 changes raised both of these threshold rates by a full percentage point and eliminated a national trigger by which all states would qualify for extended benefits when the national IUR was above 4.5 percent (Congressional Research Service, 1988).

27 For example, in May 1983, Ohio triggered off Extended Benefits when its civilian unemployment rate was 12.9 percent. The next month, Michigan triggered off EB with an unemployment rate of 14.6 percent. In March 1987, during the "oil recession," Louisiana triggered off EB with a 12.7 percent unemployment rate and EB was never available for the remainder of the recession even

Chapter One, calls went out in 1991 and 1992 to reform the EB program. Instead, a series of additional extensions were added to a long historic trend of temporary benefit extensions.

The 1980 and 1981 amendments to the EB program also acted as federal incentives for the states to adopt restrictive legislation for their regular state unemployment insurance programs. States that did not adopt a waiting week were forced to pay the first week of EB.[28] In 1981, 15 states and Puerto Rico adopted waiting weeks in response to this federal incentive (Runner, 1982). Additional enticements were provided by requiring certain features in regular UI programs before claimants could receive EB after exhausting state UI benefits.[29] For example, states were encouraged to require at least 20 credit weeks for basic state unemployment insurance eligibility since federal law required at least 20 credit weeks in order to qualify for EB.[30]

Third, the definition of "suitable work" was relaxed under law pertaining to EB. Claimants were ineligible for EB if they refused suitable work that included any job

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though Louisiana's unemployment rate stayed over 10 percent for two more years.

28 P.L. 96-499, §1022; Federal-State Extended Unemployment Compensation Act, §204(a)(2)(B), 26 U.S.C. §3304 note.

29 Pub. Law 96-499, Subtitle C, 96th Cong., 2d Sess. (December 1980); Pub. Law 97-35, Title XXIV, 97th Cong., 1st Sess. (August 1981).

30 Federal State Extended Unemployment Compensation Act, §202(a) (4); 26 U.S.C. §3304 note.

paying more than unemployment benefits.[31] It is unclear what broader effect this relaxation may have had on state programs, though it is apparent that several states did alter their suitable work definitions shortly thereafter (Isaackes, 1982). The definition of "suitable work" was one of the very few federal restrictions put on state behavior in 1935. The gutting of that concept in the only federally-funded component of the unemployment insurance system, EB, was a sharp message to claimant advocates. The last of the important EB amendments increased demands to requalify after a misconduct discharge, voluntary quit, or suitable work refusal. As will be seen, this penalty added to an already strong trend toward durational disqualifications.

The broadest federal incentive for new state restrictions was a 1981 law requiring interest on federal loans to state trust funds. Beginning in 1982, states were required to repay federal loans to their trust funds with up to 10 percent interest.[32] As a result of this change, states were no longer able to count on interest-free federal loans to get through recessionary periods of high benefit payments. In addition, states with loans made after the

31 The absurdity of this change from the standpoint of labor market policy is obvious. Testimony by Thomas Hines on behalf of ICESA in 1992 noted, for example, that this would require an unemployed airline pilot in Dade County to cut sugar cane if offered that job.

32 P.L. 97-35, §2407; 42 U.S.C. §1321(b)(1). Like the federal attack on "suitable work", the assault on interest free loans undid decades of legislative effort. The loan system was implemented to allow states to meet unforeseeable, extreme program demands -- like those of the 1980s.

1981 amendments were required to maintain "solvency efforts" in order to avoid further tax penalties upon their employers.[33] States with interest-bearing trust fund debts could not liberalize any feature of their programs without a corresponding revenue increase or benefit reduction. Another consequence of this federal amendment was added pressure to avoid loans in debt free states by cutting or freezing benefits and reducing the scope of state programs (Vroman, 1986, 1990b; General Accounting Office, 1988; Congressional Research Service, 1988).

States Respond to the New Pressures.

There are two ways for states to achieve solvency: they can increase revenues or they can reduce benefit expenditures. Employers naturally oppose increased taxes because they view them solely as a cost of doing business and in almost all states employees make no direct contributions to trust funds.[34] Despite employer opposition and the competitive pressures from neighboring states, a number of states did raise tax rates and/or state taxable wage bases in the 1980s. Graph 2.2 shows the number of states with taxable wage bases above the federal tax base and notes federal increases.

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33 P.L. 97-35, §2406; 26 U.S.C. §3302(f).

34 Alaska and New Jersey require employee contributions. Pennsylvania and West Virginia have trigger conditions for assessing employee contributions.

[Graph 2.2]

The graph shows that more states raised their taxable wage bases above the federal level in the 1980s than in any previous recession, in part because the federal base was quite low.

This would appear to indicate that employers were being sufficiently taxed to maintain trust fund solvency without reducing claimants' benefits. Yet, because taxable wage bases have not kept pace with the wage increases, effective employer tax rates in the 1980s were roughly equal to tax rates in the 1960s (General Accounting Office, 1988), when program demands were lower, and effective unemployment tax rates as a proportion of total wages actually fell after 1984 (Congressional Research Service, 1990). Graph 2.3 shows effective tax rates as a percentage of total wages.

[Graph 2.3]

The ratio of taxes to total wages is a critical program measure because benefits are typically a function of prior wages though tax revenues are not so closely linked.[35]

35 By 1984, only 14 states had indexed their taxable wage bases to some measure of state wages. It is noteworthy that only two states, Hawaii and Washington, did so prior to 1975. Half of the 14 states took such action in 1978 or more recently (Vroman, 1986). In 1991, 17

Rising wages, indexed benefits, and the drop in effective taxes, all else being equal, could have produced many more insolvencies during the recession of the 1980s. During the 1980s, however, all else was not equal.

Graph 2.1 shows reserves climbing in the late 1980s while Graph 2.3 shows effective tax rates falling during the same time period. How can both happen? States can only maintain or achieve solvency without increasing revenues to match program demands if they reduce the cost of their programs. This was the dominant response of the 1980s. Cost-saving options available to states include making it cheaper to have workers in the program (by reducing benefits or durations), harder for workers to get into the program (through monetary requirements and disqualification provisions), and harder to stay in the program (through continued eligibility requirements and disqualifications). States took action on all these fronts during the 1980s, with the greatest damage done, as we'll see in Chapter Three, through complete exclusion of the unemployed from benefits.

During the 1980s, many states adopted unemployment benefit freezes or reductions to try to control program costs. Graph 2.4 measures benefit adequacy in the form of wage replacement rates (average weekly benefit/ average weekly wage) since 1938.

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states had indexed wage bases (National Foundation for Unemployment Compensation, 1991).

[Graph 2.4]

Not since 1945 have unemployment insurance benefits replaced more than 40 percent of average weekly wages. But neither has there been a dramatic decline. For the most part, the national wage replacement rate has stagnated over time at a low level, falling slightly after a modest peak of 37.5 percent in 1982.

States can also take action to keep claimants out of the system. In a September 1988 report, the General Accounting Office found that 44 states adopted tighter monetary eligibility standards or stricter disqualification provisions between 1981 and 1987 (General Accounting Office, 1988). The minimum monetary earnings provision is the number of weeks of work or the amount of wages that a state requires for threshold unemployment insurance eligibility. Thirty-five states adopted one or more increases in their minimum monetary earnings requirements between 1981 and 1987. Table 2.3 shows minimum earning requirements by state in 1979 and 1990 and the change in this requirement.

[Table 2.3]

In addition, 18 states enacted stricter formulas for calculating monetary eligibility (General Accounting Office, 1988). Eligible workers with low base period earnings receive a correspondingly lower weekly benefit amount and a shorter duration of benefits. Workers who do not meet the minimum monetary earnings eligibility requirement receive no benefits.

Many states also increased the earnings required to receive the maximum weeks of benefits and/or the maximum weekly benefit amount. Between 1981 and 1987, seven states lowered the maximum number of weeks for which they paid benefits from some higher number to 26 weeks (General Accounting Office, 1988). While the common understanding is that most workers receive 26 weeks of basic state benefits, in fact several states have monetary eligibility standards which limit payment of the maximum weekly benefit amount and the maximum duration of benefits to workers with earnings considerably higher than the average. Table 2.4 shows the number of weeks benefits actually received by claimants who had exhausted their benefit rights in 1990, i.e., before the federal special extension of benefits was enacted.

[Table 2.4]

The wide variation in benefits received prior to exhaustion is due in part to economic conditions, but is largely due to

variation in earnings requirements. By 1991, there was a wide range in state monetary qualification provisions both to receive any benefits and to receive the maximum benefit for the maximum potential duration. Earnings required for minimum benefits ranged from $150 in Hawaii to $3,640 in Oklahoma. The amount required to receive the maximum weekly benefit for 26 weeks ranged from $3,349 in Indiana to $23,816 in Colorado. Ten states had earnings requirements to receive their highest weekly benefit rate for 26 weeks which exceeded $20,000 in 1991 (House Ways and Means Committee, 1992).

State legislatures also sought to restrict the scope of UI programs by adopting stricter disqualification provisions. Individuals laid off from their jobs form the basic group of unemployed workers for whom the UI system is intended to provide benefits, the so-called involuntary unemployed. All states have statutory disqualification provisions which govern the circumstances for payment of UI benefits to workers leaving their jobs voluntarily or as a result of discharge by their employers. Workers who refuse an offer of suitable work are also subjected to disqualifications in all states, based on the notion that choosing not to accept work makes the claimant voluntarily unemployed. These three disqualification provisions -- voluntary quits, misconduct discharges, refusing suitable work -- vary from state to state in terms of their scope and the severity of their penalty provisions.

The basic distinction in penalty provisions lies between states which disqualify claimants for a period of weeks of unemployment ("suspension or denial period") and those which require a claimant to find work and earn specified wages, sometimes for a specific number of weeks, in order to terminate the disqualification ("durational or full spell disqualification"). This latter type of disqualification provision is termed a "durational disqualification" because it deprives claimants of benefits for the entire duration of a spell of unemployment. In other words, a disqualified claimant must find work and earn specified earnings before he or she again qualifies for unemployment benefits.

Denial periods vary greatly across states that use them as punishment.[36] Depending on the state, claimants face up to 10 weeks denial period for quitting their jobs, up to 26 weeks for misconduct, and up to 20 weeks for refusing suitable work. In addition, many states cancel some of a claimant's benefits. In the previous chapter, the 1970 federal amendment to prevent states from cancelling all benefit rights was noted. Again in 1979, the National Commission recommended that federal action be taken to restrict cuts in benefit rights. The issue remains pertinent because, to get around the 1970 federal

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36 This discussion draws heavily on various UAW testimonies and background prepared for testimony around the Downey bills in the early 1990s. See particularly McHugh, 1991 and Reuther, 1991.

regulation, states cancelled most but not all benefit rights. Claimants in Louisiana who quit their jobs or have a misconduct discharge, for example, face a durational disqualification plus loss of half their benefit rights. Lengthening denial periods and reductions in benefit rights occurred in states that had denial periods, but far more prevalent was a shift toward keeping claimants from receiving any benefits, through durational disqualifications, following disallowed behavior.

There is no question that durational disqualifications and their severity have increased since the beginning of the federal UI system. In 1937, only one state imposed a durational disqualification for voluntary quit cases and two did so for misconduct discharges.[37] By January 1976, 19 states imposed durational disqualifications for misconduct discharges; 31 states imposed durational disqualifications for voluntarily leaving work (Employment and Training Administration, 1978). Table 2.5 shows the states that had durational disqualifications for quits, misconduct, and suitable work refusal in 1975 and 1990.

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37 In the early years of the unemployment insurance system, virtually all the penalties for disqualifications involved a suspension or delay in the payment of benefits. Typically, a six or seven week denial period was imposed for voluntary quits, misconduct discharges, or refusals of work. These types of penalties were found in the model bills promulgated by the Social Security Board in 1936 and used as a pattern for state unemployment insurance legislation (Haber and Murray, 1966).

[Table 2.5]

Under present law, 47 of the 51 jurisdictions impose a durational disqualification for voluntary quits and 38 do so in misconduct discharges. Given the National Commission's advice against durational disqualifications, it is particularly difficult to argue, as some employer-side lobbyists have, that this expansion of restrictions is somehow driven by unique labor market concerns in each state.

In addition, some states now require fairly long periods of work to requalify after the imposition of a disqualification. Several states use 10 or more weeks of work or 10 or more times the worker's weekly benefit amount, or both, to end a disqualification. In Florida, a claimant who is disqualified for voluntarily leaving work without good cause is denied benefits for the duration of their spell of unemployment plus having to earn 17 times what their weekly benefit amount would have been. These durational disqualifications impact a substantial number of claimants who are separated from work for reasons other than layoffs. In 1990, 1,080,244 individuals were disqualified for voluntarily leaving and 649,968 workers were subject to misconduct discharge penalties (Employment and Training Administration, 1991). Given the expansion of durational disqualifications, the majority of these individuals were

subjected by the states to a complete loss of benefits, not just to denial periods.

Intra-Regional Comparison and Program Change

It is clear from the previous discussion that many states faced economic pressures in the 1970s and 1980s and took steps to limit the impact of those changes on their UI systems. As the preceeding chapter showed, employer-side advocates frequently argue that the toughening of state programs was largely a regional phenomenon due to various state responses to specific state conditions or, in state testimony, they cite the competitive position of a state relative to its neighbors. Similarly, Vroman (1991) found "pronounced" differences among regions for application rates and benefit recipiency rates. Blank and Card (1991) note significant differences in recipiency rates, eligibility, and "take up" rates for UI across regions.

If these arguments are correct, that states are responding in unique ways to unique difficulties and regional economic requirements, then arguments about federal standards lose some of their power. Moreover, as Table 2.1 illustrated, employment patterns show a shift from historically high recipiency states (the North) to low recipiency states (the South). With that in mind, the decline of unemployment benefit recipiency rates could just be a function of differences in unemployment rates across regions, i.e., unemployment shifting toward low recipiency

regions yields low national recipiency rates. The discussion that follows in this chapter will identify patterns of state responses. The next chapter will link those responses to benefit recipiency rates. By looking more closely at trends and patterns within and across regions, we gain an understanding of the logic of the calls for federal standards.

To shed light on the role of interstate competition, the central revenue and expenditure side changes since the 1970s are quantified and compared over time in four ways. First, as a rough guide to the relative weight of interstate variation in explaining differences across the U.S., an analysis of variance is produced. Second, the minimum, mean, and standard deviation of program elements within regions are compared over time to examine the extent of convergence within regions, i.e., falling standard deviations. Third, cross tabulations of revenue and benefit side changes show how changes in program elements are combined in different regions. This permits the identification, where present, of distinct regional strategies for coping with changed economic circumstances. Finally, minimums, means, and standard deviations <u>across</u> regions are compared to see whether the downward pressure on programs is more attributable to pressures affecting all states than to intra-regional comparisons by legislatures.

The data to compare changes and differences across regions is derived from Employment and Training

Administration reports and reviews of legal changes in the annual issues of the Bureau of Labor Statistics, Monthly Labor Review which recount state unemployment insurance law changes. Revenue side measures are: taxable wage base, average employer tax rates as a percentage of taxable wages, and an index that combines the two effects (taxable base x effective tax rate). Because states can vary tax rates, wage bases, or both, the index is used to capture the effect on revenues that results from a given state's overall tax package. Benefit side measures are: (1) the wage replacement rate (average weekly benefits/ average weekly wage; AWB/AWW), (2) minimum earnings required to receive any benefits, (3) number of behaviors for which durational disqualifications are the penalty, (4) average maximum potential duration. The latter measure is calculated by the Employment and Training Administration to combine the two program factors that determine maximum benefit durations. It is the maximum total benefit amount divided by the weekly maximum benefit. Because states vary in their calculation of wage credits and maximum possible benefit durations, the measure used here shows the length of benefits that could actually have been received given the average wage credits earned by claimants in a given state.

For the cross tabulations, these revenue and benefit measures are compared in 1975, 1979, 1984, and 1990. 1975 and 1984 are crucial years for the program history because 1975 was a peak year for the percentage of the unemployed

receiving benefits; 1984 was a trough. 1979 and 1990 are highlighted for programmatic reasons and as business cycle peaks. 1979 was also the last business cycle peak before the new regime of federal unemployment insurance policy. The comparisons that follow will focus on change between 1975 and 1984. 1984, the most recent trough of unemployment benefit recipiency, will be an important year in the more detailed econometric decomposition that follows in the next chapter.

Table 2.6 provides the regional definitions used throughout this discussion. They are drawn from census divisions and subdivisions.

[Table 2.6]

Alaska and Hawaii are excluded because their economies are notably different from all other states and arguments around intra-regional competition cite the programs of neighboring states, of which Alaska and Hawaii have none, as examples for program change.[38]

There are obvious difficulties with identifying regional boundaries. There are no clear boundaries between

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38 My colleague, Richard McHugh, notes that Alaska and Hawaii are relatively generous with claimants. The fact that they are generous, and have no negative examples from neighboring states, is in keeping with the contention made here regarding inter-state competition.

regions; each state on the edge of a region has neighbors that are counted as another region. Nevertheless, there are economic similarities between states within a given division that make the comparison worth pursuing, if cautiously.

The first pass at this data is shown in Table 2.7. Analysis of variance (ANOVA) is used to isolate the effects of variation within regions on the variation across the entire sample of 48 states in 1984.

[Table 2.7]

By this accounting, at most 37 percent of the variation in a program element (tax rates) is explained by differences within regions. This is fairly high for cross-sectional data, but none of the benefit side variables show evidence of large intra-regional effects on variation across the country. In other words, variation <u>across</u> regions has a substantial role to play in explaining the course of program change across the country, strengthening the argument that nationwide decline, not isolated change in some regions, characterizes the system in the 1980s.

More insight about how variation in the program is explained can be gained through examination of changes over time. Table 2.8 shows the revenue side changes within regions for the selected years.

[Table 2.8]

The minimum columns show the lowest tax rate, wage base, and index of a state in the region. The mean column is the average tax rate, wage base, and index value within each region. The standard deviation is the range of each variable within the region in a given year. For now, remarks will be confined to comparisons within each region.

Although the quantity of numbers is dizzying, there are some patterns worth noting. Looking at tax rates, there is some evidence that states look across to their neighbors within their region in establishing tax rates. The change in the standard deviation between 1975 and 1984 is quite small in the Breadbasket and the Cottonbelt, and there is convergence in the West (a decline in the standard deviation).

The argument for intra-regional convergence is not as well sustained by the pattern of wage base changes. First, in every region for every year, at least one state maintained the federal tax base as their own taxable wage base regardless of increases in other states in the region. Second, in the Cottonbelt in 1975 and in the South Atlantic in 1975 and 1979, there was no variation within the region. After those years, however, the intra-regional variation grew steadily in those regions. Finally, in all regions the standard deviation grew over time. The variation within the

Breadbasket and the West expanded greatly between 1975 and 1984. The standard deviation of wage bases grew by a factor of 1.5 or more in every region between 1984 and 1990. These findings are particularly striking because, unlike the state tax rates, taxable wage bases are generally not linked to cyclical factors. Year to year changes in taxable wage bases are almost always the direct result of conscious state legislative action, and that action does not indicate intra-regional cohesiveness.

The final three columns of Table 2.8 show how the mix of wage base and tax rate changes altered the revenues raised for each covered employee earning above the taxable wage base. These figures are inconclusive with one possible exception. Change in the Cottonbelt states between 1975 and 1984 hints at intra-regional comparisons because the region witnessed large index increases and a comparatively low increase in the standard deviation of the index, i.e., indexes of state revenues went up without markedly increasing their divergence. Other regions had no such distinct pattern.

The overall picture on the revenue side does not bode well for those who claim intra-regional comparisons have driven program changes. Tax rates show some convergence or consistent variation in some regions. Taxable wage bases offer no support for the contention. And the index measure supports the intra-regional comparison argument, if at all, in only one region, the Cottonbelt.

Table 2.9 repeats the analysis for the benefit side.

[Table 2.9]

The four columns measure the three aspects of program generosity: benefit adequacy (benefit/wage ratio), difficulty of receiving benefits (minimum earnings, durational disqualifications for quitting and misconduct), and difficulty of continuing to receive benefits (durational disqualifications for refusing work, maximum duration).

Wage replacement rates converged in the South Atlantic region between 1975 and 1984, and varied only slightly more in the Rustbelt during that period. Minimum earnings requirements diverged substantially in the Breadbasket and the Cottonbelt, while moving roughly in parallel in the West. Intra-regional comparisons appear to play a minimal role in benefit adequacy determinations or earnings requirements.

Relationships within regions appear, by this measure, to play a strong role in disqualification provisions and benefit durations. Every region saw divergence in the number of durational disqualifications in effect between 1975 and 1984. Likewise, two regions (the Rustbelt and the Breadbasket) showed convergence around maximum benefit durations and two more regions (Cottonbelt and West) had a relatively constant range of durations.

Tables 2.8 and 2.9 indicate that intra-regional comparison may be a valid explanation for changes in some benefit restrictions, but not for revenue-side changes. They are definitely unconvincing in relation to taxable wage base changes and minimum earnings requirements.

Although not substantiated by examination of discrete program measures, it is nevertheless possible that combinations of changes indicate distinctive regional strategies for coping with program stress. For example, it may be that Cottonbelt states look to each other, compare programs, and adopt similar combinations of revenue enhancements and benefit restrictions. This behavior would appear in cross tabulations of program changes, but may be difficult to discern in the distinct columns previously assembled.

Cross tabulations of each revenue measure with each benefit measure are provided in three tables. Tables 2.11, 2.12, and 2.13 tabulate changes in tax rates, taxable wage bases, and revenue indexes, respectively, with changes in each of the four benefit measures. The result is 12 2x2 matrixes of revenue and benefit changes. In each case the row shows the number of states in a given region that had revenue changes above or below the average change for the variable and region between 1975 and 1984. The columns are the number of states with benefit changes (percentage point change in wage replacement, percentage increase in earnings required, number of durational disqualifications added,

percentage increase in benefit duration) above or below the average change for the region.[39]

In addition to shedding light on intra-regional behavior, cross tabulations with this structure permit a more critical assessment of the mix of changes instituted within each region. Table 2.10 gives a sketch of how these cross tabulations can be interpreted.

[Table 2.10]

Regions that are driven by solvency concerns but also want to balance this with claimant's needs will populate the lower right quadrant of the benefit matrixes, i.e., they will combine strategies to increase benefits with efforts to raise taxes. Regions that are trying to be fiscally neutral while rolling back claimants' rights will most heavily populate the upper left quadrant, combining low tax rates and benefit reductions. The upper-right quadrant favors both employers and claimants, not balancing benefit and tax changes. The lower left quadrant would be occupied by states that are facing solvency problems by concessions from

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39 Note that the breakpoints of the matrixes are changes above or below the regional mean change. This is important because, for example, many states had several durational disqualifications before 1975. In regions with many such states, the number of states with <u>increases</u> in durational disqualifications will appear small though states in the region share tough disqualification provisions.

claimant advocates and employers alike. Obviously, these matrixes are not predictors of the actual fiduciary impact of the strategies chosen. They are intended only to illustrate patterns that may exist in the relationships between revenue and benefit changes within regions.

Because there is a wide range of unmeasured state behavior within each region, particularly at the level of administration, these tables are illustrative but not conclusive. Nevertheless, there are several interesting results produced by the cross tabulations. The tax rate cross tabulations show:

[Table 2.11]

* Most Rustbelt states were on the balanced pro-employer or pro-claimant axes (five states each) with respect to wage replacement changes, perhaps indicating a more equal balance of labor-management power in that region.

* Most Rustbelt states were on the high/low solvency axis for minimum earnings requirements and taxes (five each), suggesting clearer winners and losers on this count.

* No Breadbasket or Cottonbelt states were in the balanced pro-employer, pro-claimant quadrant with respect to wage replacement rates.

* No Breadbasket state added an above average number of durational disqualifications without average or lower increases in tax rates. This indicates particularly heavy use of durational disqualifications as a cost-saving measure in that region.

* No South Atlantic states combined above average maximum potential benefit durations and below

average tax rates. No Breadbasket states had above average maximum potential durations and raised taxes more than average to cover them.

Although these results show some identifiable patterns, it is hardly convincing that states act in response to the actions of their regional neighbors with respect to tax rates. Only the Rustbelt states appear to cluster around program strategies relative to tax rates.

Turning to Table 2.12 and cross tabulations with tax base changes, the results are similarly inconclusive.

[Table 2.12]

The only clear relationships are:

* No Cottonbelt states raised their wage replacement rates by more than the regional average without also increasing their taxable wage base.

* No Rustbelt state raised its taxable wage base without an above average increase in minimum earnings requirements. No Rustbelt state had average or lower wage base increases and increased maximum potential benefit durations.

* No Breadbasket state had above average benefit durations and average or lower low taxable wage base increases.

Again, it is only the Rustbelt states that can be said to change along a distinct regional pattern. But that pattern

is less pronounced around wage base changes than around tax rates.

The results using the revenue index (Table 2.13) are even more discouraging for the intra-regional comparison argument.

[Table 2.13]

Only three cells are empty, none are heavily populated, and no diagonals stand out. The empty cells show:

* No Breadbasket state had above average revenue index growth and wage replacement increases. No Breadbasket state combined above average revenue index growth and above average maximum potential benefit durations.

* No South Atlantic state had above average maximum potential benefit durations and average or lower increases in its revenue index.

Again, it is only among the Rustbelt states that we can identify any unique regional pattern linking the tax index and other program characteristics.

The paucity of discernible relationships in the ANOVA, standard deviation tables, and cross tabulations can have several meanings. It is possible that the regions are poorly specified, though the cross tabulations are sufficiently inconclusive to suggest that changing a few states would not save the argument. It may also be that the

range of state behaviors to explain is far broader than the measures used here, meaning that strong intra-regional patterns exist but they are not correctly illustrated. More significantly, though, the lack of patterns may show that states are not responding in regionally distinct ways to different geographic transformations in the economy, as state's rights advocates and some research would suggest (Vroman, 1991; Blank and Card, 1991).

Interstate Competition and the "Race to the Bottom".

An alternative explanation of program patterns is in order. If the relevant transformation of state programs is not intra-regional but national, then the convergence anticipated in Tables 2.8 and 2.9 will not be intra-regional but inter-regional. In its strongest version, we would anticipate a convergence of all program characteristics across regions as state actors look upon all other states, not just neighbors, as likely competitors. In this model, the national decline in unemployment insurance recipiency rates, which will be shown in the next chapter, results not from employment movements from generous regions to more punitive regions, but instead from a convergence of all regions around a lower overall program standard.

To test for the presence of a pattern across regions, Table 2.14 shows the seven revenue and benefit characteristics from previous discussions, expressed in inter-regional terms.

[Table 2.14]

The minimum or maximum columns are averages for a given region, not a single state. The standard deviation column then denotes the range of each variable across regional means and the last row of each section is the change during the period of greatest benefit recipiency decline, 1975 to 1984.

Unlike the relationships uncovered within regions, the pattern across regions is fairly stark. The falling standard deviation for tax rates shows convergence of this measure across regions. In the intra-regional comparison, only the West showed a narrowing range of tax rates. The expansion of durational disqualifications has also lead to convergence of this factor across regions, as was true in all but one intra-regional comparison. Average wage replacement rates have fallen across regions and their range has only increased by four-tenths of a percentage point in the process, indicating that wage replacement rates have essentially fallen together across regions. In the intra-regional comparison, the South Atlantic showed convergence in the range of this measure, but no other intra-regional grouping had as limited an expansion of wage replacement rates as is evident across regions. Similarly, despite the supposed range of regional economic experiences, potential

maximum unemployment insurance durations varied only slightly across regions. Between 1975 and 1984 the standard deviation across regions for maximum potential benefit durations increased by only one-tenth of a week.

What does it all mean? As the previous chapter showed, between 1935 and 1979 the relationship between the federal and state partners was remarkably constant. Periodic crises lead to calls for increased federal control over program boundaries, all of which went unheeded, including the recommendations of a full-scale national review, the National Commission report of 1980. When the federal government did make substantial program changes in the 1980s, they added constraints on state programs by raising the cost of insolvency, adding fuel to a movement already underway against claimants.

Continued federal non-intervention since 1975 would have been more defensible if states were maintaining programs that successfully balanced the competing demands of program effectiveness (wage replacement rates, access to benefits) and financial soundness (tax rates and wage bases). But, as shown above, since 1975 state programs have made a marked shift away from <u>both</u> program effectiveness relative to claimants' needs <u>and</u> sufficient revenue increases. Between 1972 and 1983, 37 of 51 unemployment insurance jurisdictions required one or more federal loans to remain solvent. This is hardly surprising when the revenue increase generated by the index used here was, on

average, only $93.00 in real terms between 1975 and 1984.[40] Throughout the 1970s and 1980s, the twin pressures of solvency and interstate competition are most frequently resolved in favor of competition.[41]

Contrary to the claims of state's rights advocates, this pattern of inadequate funding and restrictive program characteristics cannot be explained by intra-regional differences in economic experience being met by responsive, innovative local legislatures. There is, instead, a nation-wide convergence around the most stringent disqualifications, highest eligibility requirements, lowest wage replacement rates, and lowest taxes.

At the outset of this chapter it was noted that states could maintain trust fund reserves during periods of stress through tax increases, reduced benefit levels, or exclusion of claimants from the system. It was noted that reserves climbed despite the fact that tax rates fell. Now we can say more about how this riddle was solved. Table 2.15 summarizes changes in each of these three parameters in the top five states for benefit payments in 1984.

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40 In 1983, eight states had outstanding federal loans. Five of those states increased their taxable wage bases, but none taxed half or more of covered wages and none moved to index their wage base (Vroman, 1986).

41 A striking example: in January, 1993, New Jersey announced a provision to grant lower unemployment insurance tax rates to employers who relocate there (New Jersey P.L. 202, A.672). New Jersey had outstanding federal loans every year from 1975 to 1984 (Employment and Training Administration, 1992).

[Table 2.15]

Note the patterns, confirming the trends identified above. Tax rates declined in two states. The Benefit/Wage ratio declined in two states. But by far the most dramatic and sizeable change, evident across all states regardless of regions, was exclusion of the unemployed from benefits. By 1984, none of the five states with the largest benefit outlays were paying benefits to more than 36 percent of their unemployed.

Program Transformation Under Interstate Competition: Michigan

All regions appear to be reducing program effectiveness. This "race to the bottom" is clear in the data, but how does it happen in practice? Chapter Three will provide a statistical decomposition of the factors explaining the decline in recipiency rates. First, though, we must look at a good example of the process of program change. One of the states that has led the nation in many program attributes is Michigan. Although it is risky to extrapolate too broadly from one case, by examining the process of program change in Michigan during the 1980s, we gain insight into the pressures and considerations that shaped state action during the decade.

Michigan is an appropriate state to look at for several reasons. First, the Michigan economy was virtually the archetype of the context of the Social Security Act of 1935

with industrial, relatively stable employment. Second, its benefits, perhaps surprisingly, have not been historically high. Michigan's wage replacement rate was actually below the national average in 1979. But its average wage is high, potentially improving the functioning of the payroll tax base of unemployment insurance. Third, Michigan plays a large role in national unemployment insurance effectiveness. In 1990, over 11.1 percent of all unemployment benefits paid were received in Michigan. Michigan's $2.0 million in benefits was second only to California's $2.2 million. Michigan, New York, and California paid one-third of all benefits.[42] Finally, Michigan was a debtor state during the 1970s and 1980s. As such, the need for reform was apparent and the response, presumably, openly debated. In the previous chapter, we saw that major reforms occur only during periods of program crisis. Michigan in the 1980s gives a good example of the shaping of state responses and the issues surrounding them.

Michigan's unemployment insurance system first showed signs of weakness in 1975 (as one might have guessed given the story so far). When unemployment hit 12.5 percent in 1975, Michigan drew loans of $571 million over two years. Tax rates were raised and the wage base expanded so that the loans were paid off between 1976 and 1979 (Vroman, 1986). But the state's reserves were badly damaged (Graph 2.5).

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42 Author's calculations using Employment and Training Administration data (ETA, 1992).

[Graph 2.5]

The Michigan legislature in 1980 passed several unemployment insurance provision changes for 1981. They raised the monetary eligibility requirement from 14 to 18 weeks and raised the credit week to 20 times the minimum wage. They changed the suspension period for voluntary quits into a durational disqualification. In return, weekly benefits were increased to 70 percent of after-tax weekly wages (instead of 60 percent of gross wages) up to a maximum of 58 percent of the state average weekly wage (and indexing of the maximum instead of the previous fixed maximum plus dependent's allowances). No tax increases or wage base increases were part of the package. It was assumed by all parties that higher eligibility requirements and tougher disqualifications would pay for the increased benefits and maintain solvency (Vroman, 1986). If the 1980s economy had behaved more favorably, it might have worked.

Michigan's unemployment rate hit 12.4 percent in 1980, then 15.5 percent in 1981, and stayed over 14 percent for two more years. In short order, the unemployment insurance trust fund was exhausted. Michigan borrowed over $3.0 billion from 1980 to 1983. At the end of 1982, Michigan had $2.2 billion in debt outstanding (Employment and Training

Administration, 1992). The Michigan legislature again faced the music.

Unemployment insurance reform in Michigan, until recently, was largely developed through a tripartite body called the Economic Alliance.[43] This quasi-governmental agency (which includes input from staff of the Employment Security Commission) attempts to fashion consensus bills before state action. The legislative package that they produced in 1982 was a major revision of Michigan law, including the following provisions:

> * The taxable wage base increased from $6,000 to $8,000 in 1983, $8,500 in 1984, $9,000 in 1985, and $9,500 in 1986. The wage base had been unchanged since 1978 when it was raised just $600.
>
> * A surcharge was imposed on negative balance employers and the maximum tax rate rose from 9.0 to 10.0 percent of taxable, covered payroll.
>
> * The maximum weekly benefit was frozen at $197 through 1986.
>
> * Benefits were reduced to 65 percent of after-tax wages from the previous 70 percent.
>
> * The monetary eligibility requirement was raised in two ways. The definition of a credit week was raised from 20 times the minimum wage to 30 times the minimum wage, a $33.50 increase. The number of credit weeks required was

43 The section on Michigan legislation again relies heavily on various testimonies produced by Richard McHugh and the author (primarily, McHugh, 1992). It also derives from conversations with staff of the UAW Unemployment Insurance Clinic and of the Economic Alliance. The author is a union representative to the Alliance.

raised to 20 from 18.[44] The credit week of 30 times minimum wage was intended to sunset in 1986, reverting to a 20 hours and 20 weeks qualification.

These changes had mixed results. Benefit expenditures from 1983 to 1986 were $2.1 billion lower than anticipated in 1982 before legislation was passed. The wage replacement rate fell from 41.5 percent in 1982 to 34.3 percent in 1985, before the benefit freeze ended. More importantly, in anticipation of the chapter that follows, in the year following the 1982 legislation the percentage of the unemployed receiving benefits in Michigan fell from 38 percent to 28 percent.[45] The tax revenue gains fell quite heavily on negative balance employers and proved insufficient. Despite increased maximum tax rates and higher wage bases, tax revenues were actually $1.4 billion lower than anticipated before the 1982 actions (Economic Alliance, 1986).

In 1986, when some of the legislative package was to sunset, the Economic Alliance developed another consensus proposal. It would have limited benefit increases and raised taxes if specified trust fund thresholds were reached. Senate Republicans demanded more claimant concessions and the bill was never brought forward. The

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44 Recall that the 20 credit week requirement was also part of federal Extended Benefit amendments. Its adoption in Michigan shows the confluence of solvency issues, federal pressure, and interstate competition.

45 By 1987, only 22 percent of the unemployed in Michigan were receiving benefits.

average weekly benefit provision of the 1982 law expired and benefits returned to 70 percent of average weekly wages (subject to the indexed maximum).[46]

In 1988, organized labor and employer representatives revisited the issue of solvency in light of the experience since 1982. Employers proposed further benefit reductions. Labor representatives proposed employer tax increases as well. In mid-1989, talks were broken off. In 1991, with federal penalty taxes looming on unpaid loan balances, talks resumed and again broke off. In late 1991, the Employers' Unemployment Compensation Council (EUCC) produced "Michigan's Unemployment Insurance Law: An Action Agenda for Legislative Reform" (1991) that included four proposals to cut benefits and no suggestions for revenue enhancement.[47]

Although trust reserves have climbed steadily since 1983 (Graph 2.5), the health of the fund is easily overestimated. It is true that reserves were built up steadily, but in 1990, before the recession took hold, the trust fund reserve ratio was just .41. Penalty taxes on outstanding loans were avoided throughout the 1980s by

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46 The raised credit week definition was also to sunset, but the Michigan Attorney General declared the sunset provision unlawful. A court challenge lead to its eventual sunsetting, four years later than the labor-management agreement had intended (McHugh, 1992).

47 Although the EUCC made no proposals to increase revenue, it ironically concluded that "Fiscal responsibility is more important now than ever". It also sanguinely noted that fiscal responsibility "can be achieved with minimal hardship on those involved in the UI process" -- particularly employers, apparently.

making voluntary payments from the trust fund, making the minimum payment necessary to avoid FUTA penalty taxes on Michigan employers. This was no longer an option when, at the end of 1991, revenues fell short of benefit payments.

In the fall of 1992, Senate Bill 1067 proposed returning to the 1982-1986 definition of credit weeks and benefits, eliminating indexing, and requiring a waiting week. As in discussions in 1988, 1989, and 1991, the employer-side advocates of the bill included no revenue enhancing provisions. The bill passed the Senate, but the House sent labor and employer representatives to the bargaining table rather than vote on the bill. As this is being written, those talks have broken down as, once again, the employer representatives refuse to consider revenue increases to go along with benefit reductions.

There are several lessons to be drawn from this brief look at the Michigan case. The shortfall in unemployment insurance revenue is not surprising given resistance to tax increases. But what is less commonly understood is the link between benefits and taxes. The record in Michigan since 1982 shows that cutting benefits will not, by itself, promote solvency because the experience rating system reduces tax burdens in response to reduced benefits. Graph 2.6 shows how this effect worked in Michigan.

[Graph 2.6]

Falling benefit demands yield some drop in tax demands, after a lag, so revenues don't fully catch up to outlays even at the new reduced benefit level. This relationship is systematic under experience rating in all states, but its effects can be mitigated through changes in taxable wage bases, raising maximum and/or minimum tax rates, or eliminating experience rating when benefits are reduced. The more extreme steps taken by states to reduce benefit outlays may have an impetus in this anomaly of experience rating. The adverse effect of experience rating only holds when benefits are reduced and tax rates are unchanged, not when claimants are disqualified. Victims of durational disqualifications or higher earnings requirements receive no benefits and trust fund reserves are maintained.

Some other lessons from the Michigan case are broadly applicable. First, the existence of a strong labor presence to argue the case for claimants played a crucial role in establishing which trade offs would be incorporated in state legislation. Second, even with that presence, it is exceedingly difficult to convince legislatures to increase taxes on employers. Since 1982, no legislative proposal has included revenue increases under any circumstance. No proposal has been seriously advanced to increase revenues even along with concessions from claimants. The increase in benefits that was part of the 1980 legislation occurred when the wage replacement ratio was at its lowest point since

1962 (31.6 percent). The obvious inadequacy of benefits that replace less than one-third of lost wages was not cause enough for action; benefit increases only came when they could be linked to a durational disqualification and tougher monetary eligibility. In 1992 and 1993, the only legislative proposals to address the solvency crisis were for more benefit cuts without revenue increases, even though average weekly benefits were less than 80 percent of the poverty level for a family of four.[48] Finally, the role of competitive pressure in limiting unemployment insurance reform was shown in its extreme. At hearings in February, 1993, a Republican state senator asked a representative testifying for the AFL-CIO how Michigan could compete with Mexico if unemployment insurance taxes were raised.

Summary

The issues raised by the convergence of anti-claimant legislation across all regions of the country and the example of Michigan go deep to the heart of the decline of unemployment insurance in the United States. The question is not just which revenue and benefit components are traded against each other in a given state, but whether the role of unemployment insurance as an economic stabilizer and support

48 Author's calculation using Michigan Employment Security Commission data on benefits and the Census Bureau, P-60 Series, poverty threshold for 1991. In 1991, Michigan's average weekly benefit was 79.3 percent of the U.S. poverty threshold for a family of four. It never exceeded 80 percent of the poverty threshold after the 1982 solvency package went into effect.

for the unemployed is lost in the process. It may be that durational disqualifications for quitting are worth $200 million, as Michigan employers estimated they were, so a package of durational disqualifications, tougher eligibility standards, and improved benefits would be financially sound and politically feasible. But there is no programmatic connection, no overall vision of the unemployment insurance program, that supports the specific combination of increasing durational disqualifications and reducing benefit levels.

Throughout the country in the 1980s, states engaged in such trading and claimants and the unemployment insurance program paid a heavy price. What emerged was more than just a pattern of states comparing themselves to their neighbors within a given region. It was a national response, one state at a time, to a combination of increased program demands and reduced power or willingness to extract tax revenue.

Some trade-offs are unavoidable. Any system, with whatever level of federal intervention, will have to balance benefit needs and revenue capacity. But the lesson of the 1980s is that such balancing cannot occur in state governments without the potential for doing serious harm to the underlying national goals of the program. During the 1980s, states grappled with federal policy that only heightened their vulnerability, interstate competition that was constantly raised as a threat, and economic change that

consistently outran the policy levers available to them. Falling benefit levels, insufficient revenue raising, and tougher eligibility and disqualification provisions were the predictable result. Now we must assess the most egregious damage, the role of state legal changes in the decline of unemployment insurance beneficiary rates during the 1980s.

TABLE 2.1
Economic Performance and Trust Fund Reserves
Regional Variation, 1949-1983

	1949-59	1960-69	1970-79	1979-1983
* Employment Growth Rate:				
Total U.S.	1.4	2.6	2.5	-0.1
North	0.8	2.1	1.4	-1.0
South and West	2.4	3.3	3.8	0.9
** Trust Fund Reserves at Start of Timeperiod:				
Total U.S.	7.9	3.6	3.4	0.9
North	7.6	3.2	3.4	-0.1
South and West	8.5	4.2	3.5	2.0

* Employment growth rate is from BLS, "Employment and Earnings."
** Trust Fund Reserves are reserves as percent of prior year payroll.
Trust fund data from Employment and Training Administration, "Unemployment Insurance Financial Data," 1984.

Source: Vroman (1986), Table 1-4.

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TABLE 2.2
Corporate Strategy and Inter-Regional Trust Fund Changes

	LOSING STATE		GAINING STATE	
Corporate Strategy	Expenditures	Revenues	Expenditures	Revenues
Plant Closing and New Opening *	Increase	Decrease	Decrease if Unemployed Hired	Potential Rapid Increase
Production Shifting Between Facilities	Increase	Increased Rate (Unless Maximum Rate Already) But Less Payroll to Tax	No Change	No Change
Downsizing	Increase	As Above	No Gaining State	
Foreign Sourcing	Increase	As Above.	No Gaining State	

* The row for plant closings is derived from Vroman (1986). The relationships and logic are extended to other areas by the author.
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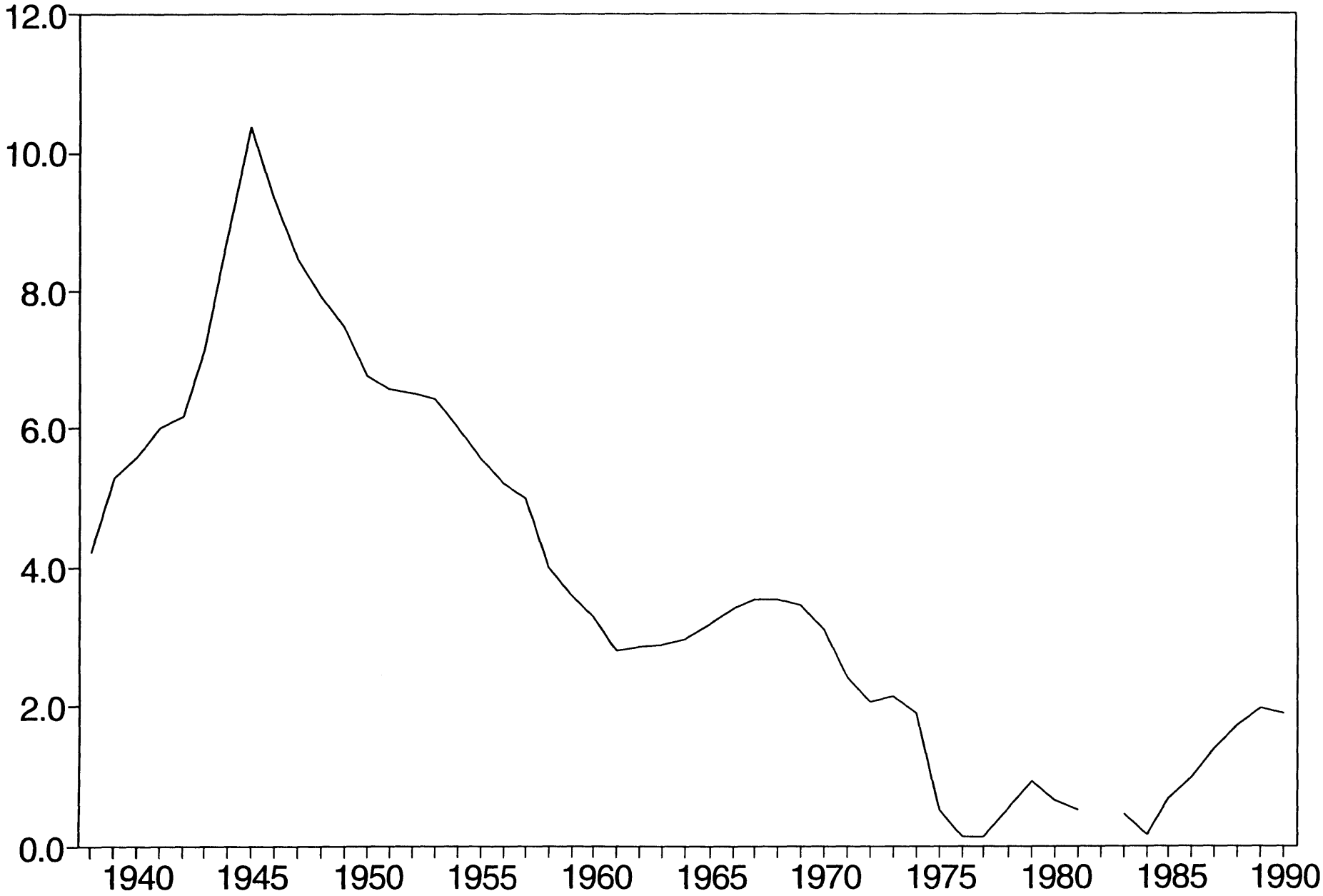
Graph 2.1

Reserve Ratio
All State Programs



Source: Employment and Training Administration, 1992.

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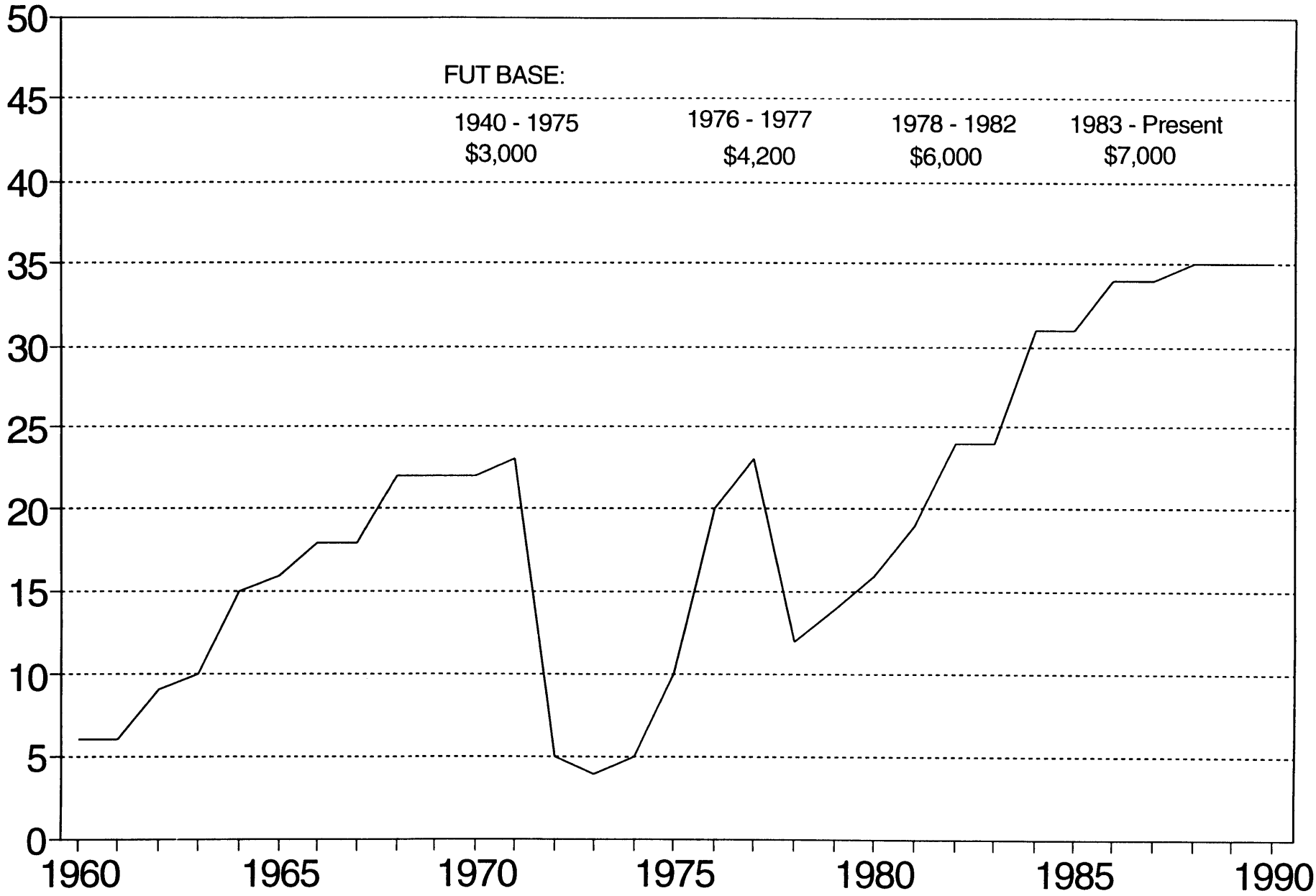
Graph 2.2

Number of States With Taxable Wage Bases Above Federal



Count includes the District of Columbia.
Source: Employment and Training Administration, 1992.

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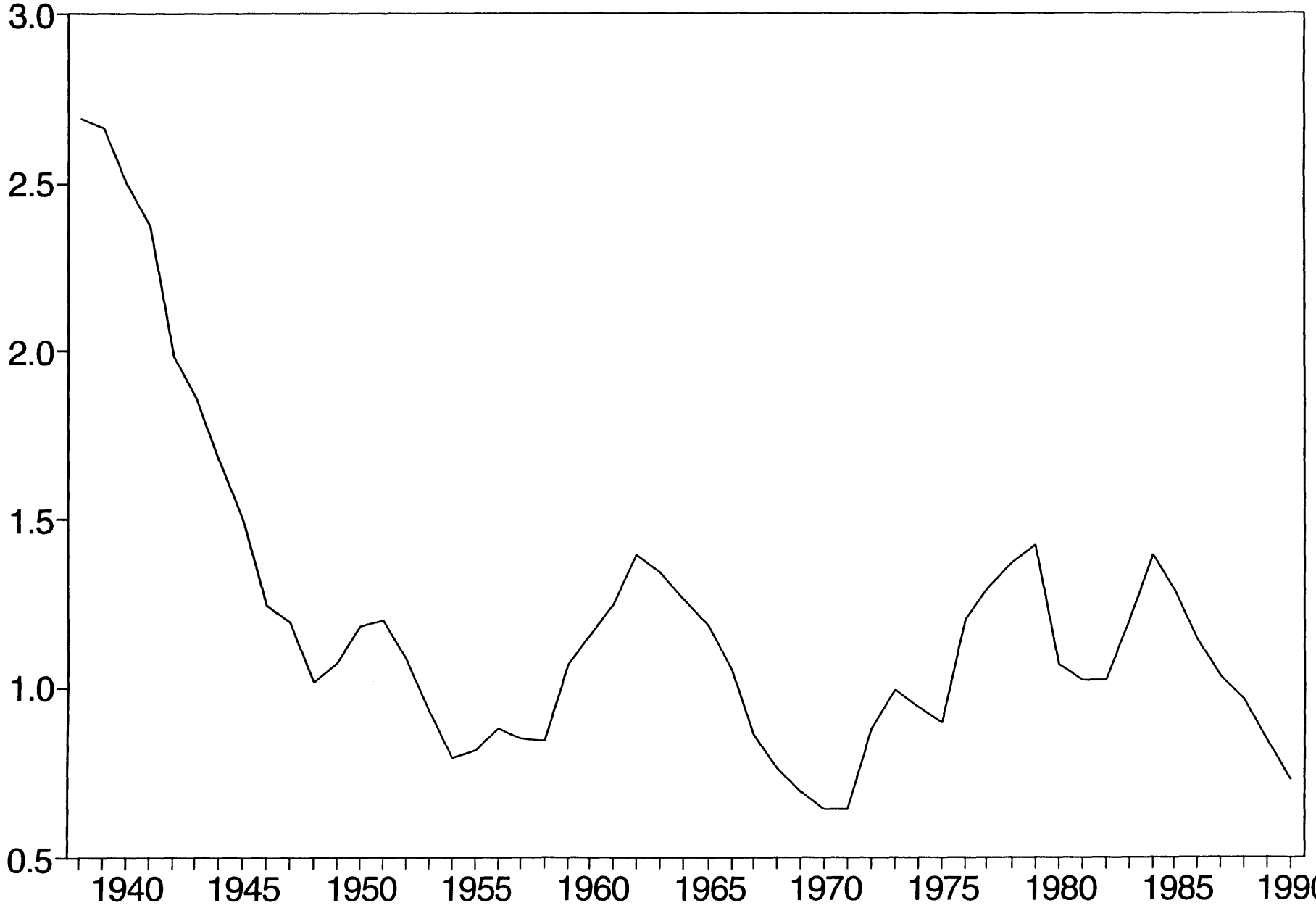
Graph 2.3

Unemployment Insurance Taxes as Percent of Total Payrolls



Source: Employment and Training Administration, 1992.

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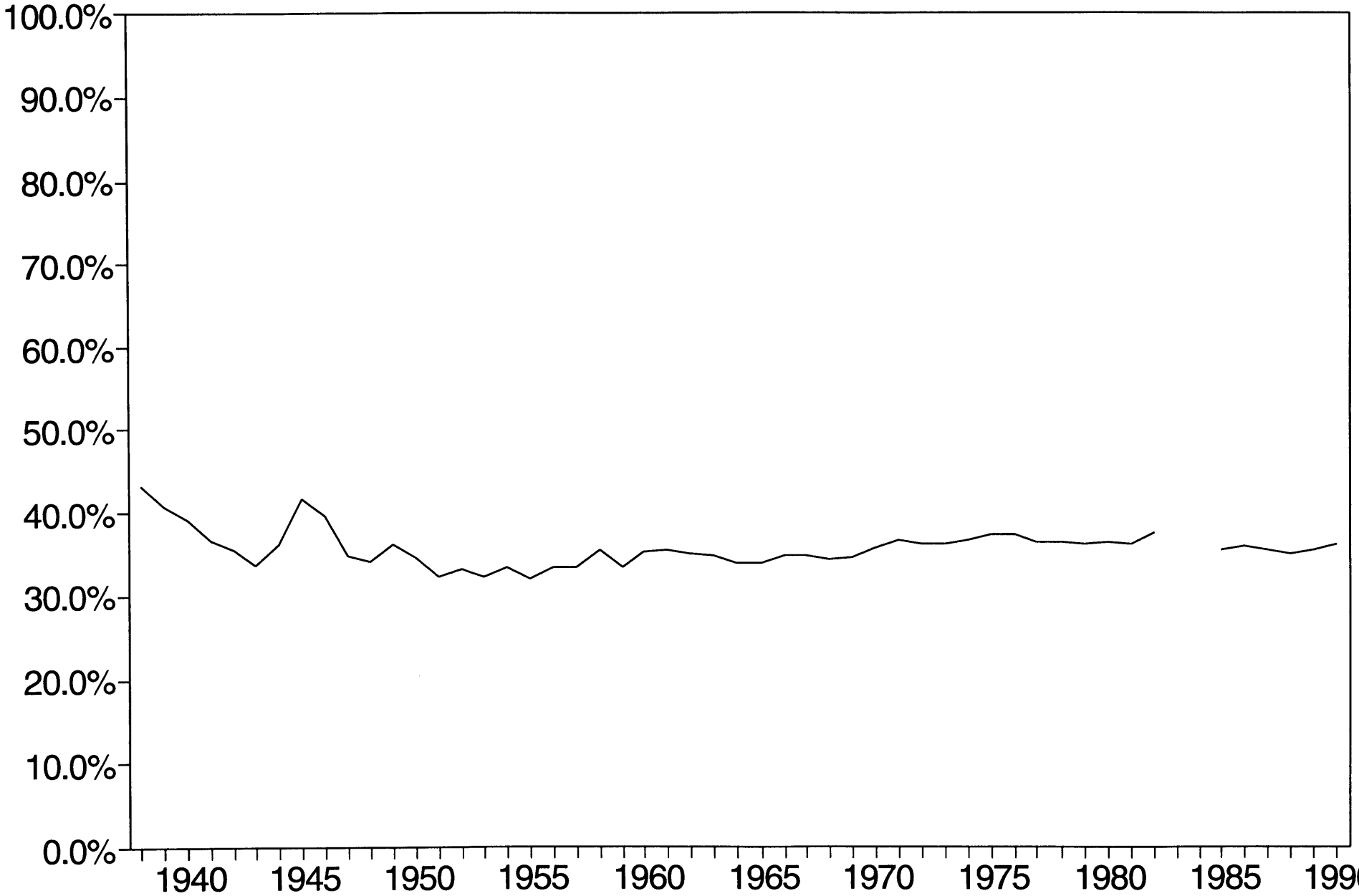
Graph 2.4

Average Weekly Benefit/ Average Weekly Wage



Source: Employment and Training Administration, 1992.
1983 and 1984 figures not part of original series.

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TABLE 2.3
Minimum Earning Requirements
50 States, 1979, 1990, Change

State	1979	1990	Change	State	1979	1990	Change
AK	$750	$1,000	$250	MT	$1,150	$1,098	($52)
AL	$522	$1,032	$510	NC	$565	$2,052	$1,487
AR	$450	$1,140	$690	ND	$1,440	$2,795	$1,355
AZ	$937	$1,500	$563	NE	$600	$1,200	$600
CA	$750	$1,125	$375	NH	$1,200	$2,800	$1,600
CO	$750	$1,000	$250	NJ	$600	$1,980	$1,380
CT	$600	$600	$0	NM	$633	$1,109	$476
DE	$720	$966	$246	NV	$562	$600	$38
FL	$400	$400	$0	NY	$800	$1,600	$800
GA	$412	$1,350	$938	OH	$400	$1,702	$1,302
HI	$150	$150	$0	OK	$1,000	$3,640	$2,640
IA	$600	$900	$300	OR	$700	$1,000	$300
ID	$520	$1,430	$910	PA	$440	$1,320	$880
IL	$1,000	$1,600	$600	RI	$1,060	$1,700	$640
IN	$500	$2,500	$2,000	SC	$300	$900	$600
KS	$900	$1,620	$720	SD	$1,160	$1,568	$408
KY	$1,000	$1,500	$500	TN	$504	$1,560	$1,056
LA	$300	$1,200	$900	TX	$500	$1,332	$832
MA	$1,200	$1,200	$0	UT	$700	$1,500	$800
MD	$360	$900	$540	VA	$1,368	$2,800	$1,432
ME	$900	$2,081	$1,181	VT	$700	$1,400	$700
MI	$350	$2,010	$1,660	WA	$1,800	$1,500	($300)
MN	$900	$1,250	$350	WI	$780	$1,428	$648
MO	$450	$1,125	$675	WV	$1,150	$2,200	$1,050
MS	$360	$1,200	$840	WY	$960	$1,500	$540

Source: House Ways and Means Committee, 1992

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TABLE 2.4
Actual Benefit Weeks Received By Benefit Exhaustees
1990

State	Weeks	State	Weeks
AK	19.8	MT	18.0
AL	22.7	NC	21.2
AR	23.3	ND	16.1
AZ	21.8	NE	16.9
CA	23.4	NH	26.0
CO	16.5	NJ	23.1
CT	26.0	NM	25.2
DE	25.9	NV	22.6
FL	19.1	NY	26.0
GA	20.9	OH	25.3
HI	26.0	OK	21.3
IA	21.2	OR	24.9
ID	16.7	PA	25.8
IL	26.0	RI	21.2
IN	20.4	SC	24.8
KS	21.6	SD	24.8
KY	26.0	TN	18.3
LA	26.0	TX	20.0
MA	26.9	UT	19.0
MD	26.0	VA	19.8
ME	21.0	VT	25.7
MI	21.1	WA	24.1
MN	21.7	WI	20.8
MO	20.8	WV	25.6
MS	22.5	WY	20.1

Source: Employment and Training Adminstration, 1992.
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TABLE 2.5
Durational Disqualifications
1975 and 1990

	1975			1990		
	Quit	Wrk Refusal	Discharge	Quit	Wrk Refusal	Discharge
AK	0	0	0	0	0	0
AL	1	0	0	1	0	0
AR	1	0	0	1	0	0
AZ	1	1	0	1	1	1
CA	1	0	1	1	0	1
CO	1	0	1	1	0	1
CT	0	0	0	1	1	1
DE	1	1	1	1	1	1
FL	1	1	1	1	1	1
GA	0	0	0	1	1	1
HI	0	0	0	1	1	1
IA	1	1	0	1	1	1
ID	1	1	1	1	1	1
IL	1	1	1	1	1	1
IN	1	0	1	1	1	1
KS	0	0	0	1	1	1
KY	1	0	0	1	1	1
LA	1	1	1	1	1	1
MA	0	0	0	1	0	1
MD	1	0	0	0	0	0
ME	1	1	1	1	1	1
MI	0	0	0	1	1	1
MN	0	0	0	1	1	1
MO	1	1	0	1	1	0
MS	1	0	0	1	0	1
MT	0	0	0	1	1	1
NB	0	0	0	1	1	1
NC	0	0	0	1	0	1
ND	1	0	1	0	0	0
NH	1	0	1	1	1	1
NJ	1	0	0	1	0	0
NM	1	0	0	1	1	1
NV	0	0	0	1	1	0
NY	1	1	1	1	1	1
OH	1	1	1	1	1	1
OK	0	0	0	1	1	1
OR	1	0	1	1	1	1
PA	1	1	1	1	1	1
RI	1	0	0	1	1	1
SC	0	0	0	1	1	0
SD	0	0	0	1	1	1
TN	1	1	1	1	1	1
TX	0	0	0	1	1	1
UT	0	0	0	1	1	1
VA	1	1	1	1	1	1
VT	1	1	1	1	1	0
WA	1	1	1	1	1	1
WI	1	1	0	1	0	0
WV	0	0	0	1	0	0
WY	0	0	1	1	1	1
TOTAL	31	17	20	47	37	38

0 = not a durational disqualification.
Sources: 1975 DATA -- Department of Labor, Employment and Training Administration,
"Unemployment Insurance: State Laws and Experience," 1975;
Monthly Labor Review, January 1975 and 1976.
1990 DATA -- Monthly Labor Review, various years.

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TABLE 2.6
Census Divisions for U.I. Program Comparison

Grouping	Census Divisions	States
RUSTBELT	New England	Connecticut
17 States		Maine
		Massachusetts
		New Hampshire
		Rhode Island
		Vermont
	Middle Atlantic	New Jersey
		New York
		Pennsylvania
	East North Central	Illinois
		Indiana
		Ohio
		Michigan
		Wisconsin
BREADBASKET	West North Central	Iowa
7 States		Kansas
		Minnesota
		Missouri
		Nebraska
		North Dakota
		South Dakota
SOUTH ATLANTIC	South Atlantic	Delaware
8 States		Florida
		Georgia
		Maryland
		North Carolina
		South Carolina
		Virginia
		West Virginia
COTTONBELT	East South Central	Alabama
8 States		Kentucky
		Mississippi
		Tennessee
	West South Central	Arkansas
		Louisiana
		Oklahoma
		Texas
WEST	Mountain	Arizona
11 States		Colorado
		Idaho
		Montana
		Nevada
		New Mexico
		Utah
		Wyoming
	Pacific	California
		Oregon
		Washington

Source: Adapted from Bureau of Labor Statistics, "Geographic Profile of Employment and Unemployment, 1991," Table C-1, p. 154.
Excludes Alaska, Hawaii, and District of Columbia.

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TABLE 2.7
Role of Intra-Regional Variation in National Program Variation
1984 Program Statistics, Analysis of Variance

	WITHIN REGION EFFECT		
REVENUE SIDE VARIABLES	Variance Explained	F-test	Sign.
Taxable Wage Base	36.9%	6.29	0.000
Tax as Percent of Taxable Wages	25.0%	2.78	0.039
Index of Wage Base and Tax Rate	17.4%	2.27	0.078
BENEFIT SIDE VARIABLES			
Maximum Potential Duration of Benefits	14.5%	1.83	0.141
Average Wkly Benefit/ Average Wkly Wage	13.0%	1.62	0.187
Minimum Earnings Requirement	7.2%	0.83	0.514
Number of Durational Disqualifications	5.3%	0.60	0.664

Note: ANOVA compares sample variation to population variation.
In this application, ANOVA measures the relationship between variation within regions and change across the nation.
The variance explained column shows that variation of the benefit-side variables within regions does not significantly explain national variation (less than 15 percent of the total).

Source: Bureau of Labor Statistics, Monthly Labor Review, various issues.
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TABLE 2.8
Intra-Regional Revenue Side Comparisons

		TAX RATE			WAGE BASE			INDEX		
		MIN	MEAN	St.D.	MIN	MEAN	St.D.	MIN	MEAN	St.D.
RUSTBELT	1975	0.0106	0.0246	0.0088	$4,200	$4,414	$487	$44.5	$109.8	$43.4
	1979	0.0159	0.0298	0.0070	$6,000	$6,043	$155	$95.4	$180.6	$43.8
	1984	0.0157	0.0371	0.0109	$7,000	$7,979	$1,030	$109.9	$301.8	$108.8
	1990	0.0074	0.0229	0.0073	$7,000	$8,771	$2,321	$51.8	$203.5	$83.4
	1984-1975	0.0051	0.0125	0.0021	$2,800	$3,564	$544	$65.4	$192.0	$65.4
BREADBASKET	1975	0.0074	0.0150	0.0053	$4,200	$4,286	$210	$31.1	$64.3	$23.1
	1979	0.0127	0.0214	0.0046	$6,000	$6,557	$721	$76.2	$141.7	$37.6
	1984	0.0168	0.0270	0.0059	$7,000	$8,514	$1,508	$117.6	$232.0	$71.5
	1990	0.0066	0.0146	0.0044	$7,000	$9,329	$2,453	$46.2	$139.1	$62.7
	1984-1975	0.0094	0.0120	0.0006	$2,800	$4,229	$1,298	$86.5	$167.7	$48.4
SOUTH ATLANTIC	1975	0.0027	0.0113	0.0052	$4,200	$4,200	$0	$11.3	$47.6	$21.8
	1979	0.0105	0.0219	0.0081	$6,000	$6,000	$0	$63.0	$131.1	$48.5
	1984	0.0156	0.0262	0.0099	$7,000	$7,400	$520	$109.2	$195.8	$82.6
	1990	0.0073	0.0137	0.0051	$7,000	$8,013	$1,328	$51.1	$110.0	$42.9
	1984-1975	0.0129	0.0148	0.0047	$2,800	$3,200	$520	$97.9	$148.2	$60.8
COTTONBELT	1975	0.0035	0.0132	0.0062	$4,200	$4,200	$0	$14.7	$55.5	$26.1
	1979	0.0058	0.0204	0.0074	$6,000	$6,075	$198	$34.8	$124.5	$46.5
	1984	0.0215	0.0325	0.0068	$7,000	$7,313	$428	$150.5	$238.9	$58.1
	1990	0.0123	0.0175	0.0033	$7,000	$8,100	$826	$86.1	$142.4	$33.8
	1984-1975	0.0180	0.0192	0.0006	$2,800	$3,113	$428	$135.8	$183.4	$32.1
WEST	1975	0.0042	0.0196	0.0077	$4,200	$4,691	$779	$17.6	$95.3	$48.4
	1979	0.0129	0.0241	0.0075	$6,000	$7,636	$1,647	$77.4	$185.8	$71.8
	1984	0.0194	0.0290	0.0057	$7,000	$10,296	$2,477	$135.8	$305.7	$111.5
	1990	0.0114	0.0185	0.0063	$7,000	$12,364	$3,375	$79.8	$233.1	$108.5
	1984-1975	0.0152	0.0094	-0.0019	$2,800	$5,605	$1,698	$118.2	$210.4	$63.1

SOURCE: Employment and Training Administration, 1992.
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TABLE 2.9

Intra-Regional Expenditure Side Comparisons

		AWB/AWW			MINIMUM EARNINGS			DURATIONAL DISQUALIFICATIONS			MAXIMUM DURATION		
		MIN	MEAN	St.D.	MAX	MEAN	St.D.	MAX	MEAN	St.D.	MIN	MEAN	St.D.
RUSTBELT	1975	0.333	0.385	0.029	$1,200	$595	$204	3.0	1.9	1.2	19.8	24.8	2.6
	1979	0.310	0.375	0.035	$1,200	$752	$277	3.0	2.4	0.7	16.9	22.2	3.0
	1984	0.270	0.366	0.039	$2,106	$1,412	$489	3.0	2.6	0.7	20.9	24.6	1.8
	1990	0.283	0.391	0.052	$2,800	$1,709	$532	3.0	2.6	0.7	21.7	24.8	1.7
	1984-1975	-0.063	-0.019	0.009	$906	$816	$285	0.0	0.7	-0.5	1.1	-0.2	-0.8
BREADBASKET	1975	0.363	0.391	0.020	$600	$526	$100	2.0	0.9	1.0	21.5	22.9	1.2
	1979	0.326	0.420	0.047	$1,440	$864	$324	3.0	2.3	1.0	20.3	22.8	1.9
	1984	0.277	0.399	0.060	$2,340	$1,176	$603	3.0	2.3	1.0	21.4	22.4	1.1
	1990	0.338	0.408	0.046	$2,795	$1,494	$579	3.0	2.3	1.0	19.3	22.6	1.6
	1984-1975	-0.086	0.008	0.040	$1,740	$650	$503	1.0	1.4	0.0	-0.1	-0.5	-0.1
SOUTH ATLANTIC	1975	0.309	0.369	0.028	$720	$480	$151	3.0	1.3	1.4	19.7	23.3	2.2
	1979	0.305	0.360	0.025	$1,368	$659	$371	3.0	1.6	1.2	14.6	22.8	3.6
	1984	0.318	0.345	0.022	$2,200	$1,006	$548	3.0	2.1	1.1	20.0	23.5	2.8
	1990	0.352	0.379	0.020	$2,800	$1,446	$766	3.0	2.3	1.1	20.6	24.2	2.0
	1984-1975	0.009	-0.025	-0.006	$1,480	$527	$396	0.0	0.9	-0.3	0.3	0.1	0.6
COTTONBELT	1975	0.301	0.348	0.027	$525	$435	$82	3.0	1.3	1.1	21.2	22.9	1.1
	1979	0.302	0.356	0.036	$1,000	$580	$253	3.0	1.6	1.1	16.2	22.1	2.4
	1984	0.283	0.353	0.052	$3,000	$1,292	$739	3.0	2.3	1.0	20.6	23.3	1.4
	1990	0.272	0.350	0.047	$3,640	$1,576	$798	3.0	2.4	0.9	20.8	23.7	1.7
	1984-1975	-0.018	0.005	0.025	$2,475	$857	$657	0.0	1.0	-0.1	-0.6	0.4	0.2
WEST	1975	0.334	0.372	0.032	$1,300	$684	$228	3.0	1.5	1.1	19.3	23.4	2.7
	1979	0.292	0.367	0.039	$1,800	$860	$346	3.0	2.0	0.9	17.9	22.6	3.5
	1984	0.295	0.378	0.044	$1,716	$1,118	$293	3.0	2.6	0.5	17.8	22.4	2.8
	1990	0.273	0.389	0.047	$1,500	$1,215	$282	3.0	2.7	0.4	18.5	22.8	2.4
	1984-1975	-0.039	0.006	0.012	$416	$434	$65	0.0	1.2	-0.6	-1.5	-0.9	0.2

SOURCE: Employment and Training Administration, 1992; BLS, Monthly Labor Review, various.

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TABLE 2.10
Interpreting Intra-Regional Cross Tabulations

	LOW BENEFIT or LOW DURATION	HIGH BENEFIT or HIGH DURATION
LOW TAX	Anti-Claimant Pro-Employer Balanced	Pro-Claimant Pro-Employer Low Solvency
HIGH TAX	Anti-Claimant Anti-Employer High Solvency	Pro-Claimant Anti-Employer Balanced

	LOW DISQUALIFICATIONS or LOW MINIMUM EARNINGS	HIGH DISQUALIFICATIONS or HIGH MINIMUM EARNINGS
LOW TAX	Pro-Claimant Pro-Employer Low Solvency	Anti-Claimant Pro-Employer Balanced
HIGH TAX	Pro-Claimant Anti-Employer Balanced	Anti-Claimant Anti-Employer High Solvency

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TABLE 2.11
Comparison of Tax Rate and Benefit Changes
Crosstabs Based on Regional Mean Changes

1. Change in Average Tax Rate (row) BY
Change in Benefit/Wage Ratio (column).

	Below Average =< Xr	Above Average > Xr	
=< Xr	5	3	Rustbelt
	2	3	Breadbasket
	3	2	South Atlantic
	1	3	Cotton Belt
	3	3	West
> Xr	1	5	Rustbelt
	2		Breadbasket
	2	1	South Atlantic
	4		Cotton Belt
	2	3	West

2. Change in Average Tax Rate (row) BY
Change in Min. Earning Requirement.

	Below Average =< Xr	Above Average > Xr	
=< Xr	5	3	Rustbelt
	2	3	Breadbasket
	3	2	South Atlantic
	3	1	Cotton Belt
	3	3	West
> Xr	1	5	Rustbelt
	1	1	Breadbasket
	1	2	South Atlantic
	2	2	Cotton Belt
	3	2	West

3. Change in Average Tax Rate (row) BY
Change in Durational Disqualifications.

	Below Average =< Xr	Above Average > Xr	
=< Xr	4	4	Rustbelt
	1	4	Breadbasket
	2	3	South Atlantic
	2	2	Cotton Belt
	3	3	West
> Xr	4	2	Rustbelt
	2		Breadbasket
	2	1	South Atlantic
	3	1	Cotton Belt
	3	2	West

4. Change in Average Tax Rate (row) BY
Change in Average Maximum Benefit Duration.

	Below Average =< Xr	Above Average > Xr	
=< Xr	1	7	Rustbelt
	3	2	Breadbasket
	5		South Atlantic
	1	3	Cotton Belt
	3	3	West
> Xr	3	3	Rustbelt
	2		Breadbasket
	2	1	South Atlantic
	2	2	Cotton Belt
	1	4	West

TABLE 2.12
Comparison of Tax Base and Benefit Changes
Crosstabs Based on Regional Mean Changes

1. Change in Average Tax Base (row) BY Change in Benefit/Wage Ratio.

	Below Average =< Xr	Above Average > Xr	
=< Xr	4	2	Rustbelt
	3	1	Breadbasket
	4	1	South Atlantic
	2	3	Cotton Belt
	4	2	West
> Xr	2	6	Rustbelt
	1	2	Breadbasket
	1	2	South Atlantic
	3		Cotton Belt
	1	4	West

2. Change in Average Tax Base (row) BY Change in Minimum Earning Requirement.

	Below Average =< Xr	Above Average > Xr	
=< Xr	3	1	Rustbelt
	2	3	Breadbasket
	3	2	South Atlantic
	3	2	Cotton Belt
	4	2	West
> Xr		3	Rustbelt
	2	1	Breadbasket
	2	1	South Atlantic
	2	1	Cotton Belt
	2	3	West

3. Change in Average Tax Base (row) BY Change in Durational Disqualifications.

	Below Average =< Xr	Above Average > Xr	
=< Xr	2	4	Rustbelt
	2	2	Breadbasket
	3	2	South Atlantic
	3	2	Cotton Belt
	4	2	West
> Xr	6	2	Rustbelt
	1	2	Breadbasket
	1	2	South Atlantic
	2	1	Cotton Belt
	2	3	West

4. Change in Average Tax Base (row) BY Change in Average Maximum Benefit Duration.

	Below Average =< Xr	Above Average > Xr	
=< Xr		6	Rustbelt
	4		Breadbasket
	1	4	South Atlantic
	1	4	Cotton Belt
	2	4	West
> Xr	4	4	Rustbelt
	1	2	Breadbasket
	2	1	South Atlantic
	2	1	Cotton Belt
	2	3	West

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TABLE 2.13
Comparison of Revenue Index and Benefit Changes
Crosstabs Based on Regional Mean Changes

1. Change in Average Index (row) BY Change in Benefit/Wage Ratio.

	Below Average =< Xr	Above Average > Xr	
=< Xr	4	3	Rustbelt
	1	3	Breadbasket
	4	2	South Atlantic
	1	2	Cotton Belt
	3	3	West
> Xr	2	5	Rustbelt
	3		Breadbasket
	1	1	South Atlantic
	4	1	Cotton Belt
	2	3	West

2. Change in Average Index (row) BY Change in Minimum Earning Requirement.

	Below Average =< Xr	Above Average > Xr	
=< Xr	4	3	Rustbelt
	2	2	Breadbasket
	3	3	South Atlantic
	2	1	Cotton Belt
	3	3	West
> Xr	2	5	Rustbelt
	1	2	Breadbasket
	1	1	South Atlantic
	3	2	Cotton Belt
	3	2	West

3. Change in Average Index (row) BY Change in Durational Disqualifications.

	Below Average =< Xr	Above Average > Xr	
=< Xr	3	4	Rustbelt
	1	3	Breadbasket
	3	3	South Atlantic
	2	1	Cotton Belt
	3	3	West
> Xr	5	2	Rustbelt
	2	1	Breadbasket
	1	1	South Atlantic
	3	2	Cotton Belt
	3	2	West

4. Change in Average Index (row) BY Change in Average Maximum Benefit Duration.

	Below Average =< Xr	Above Average > Xr	
=< Xr	1	6	Rustbelt
	2	2	Breadbasket
	6		South Atlantic
	1	2	Cotton Belt
	3	3	West
> Xr	3	4	Rustbelt
	3		Breadbasket
	1	1	South Atlantic
	2	3	Cotton Belt
	1	4	West

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TABLE 2.14
Inter-Regional Comparison of Minimums, Means, and Standard Deviations

		Lowest Regional Mean	All Regions Mean	St.D.
Average	1975	0.0113	0.0167	0.0048
Tax	1979	0.0204	0.0235	0.0034
Rate	1984	0.0262	0.0303	0.0040
	1990	0.0137	0.0174	0.0033
	1984-1975	0.0148	0.0136	-0.0008

		Lowest Regional Mean	All Regions Mean	St.D.
Average	1975	$4,200	$4,358	$184
Taxable	1979	$6,000	$6,462	$621
Wage	1984	$7,313	$8,300	$1,088
Base	1990	$8,013	$9,315	$1,598
	1984-1975	$3,113	$3,942	$904

		Lowest Regional Mean	All Regions Mean	St.D.
Average	1975	$48	$74	$24
Revenue	1979	$125	$153	$26
Index	1984	$196	$255	$43
	1990	$110	$166	$45
	1984-1975	$148	$180	$19

		Lowest Regional Mean	All Regions Mean	St.D.
Average	1975	0.348	0.373	0.015
Wage	1979	0.356	0.375	0.023
Replacement	1984	0.345	0.368	0.019
	1990	0.350	0.383	0.019
	1984-1975	-0.003	-0.005	0.004

		Highest Regional Mean	All Regions Mean	St.D.
Average	1975	$684	$544	$88
Minimum	1979	$864	$743	$112
Earning	1984	$1,412	$1,201	$140
Requirement	1990	$1,709	$1,488	$163
	1984-1975	$728	$657	$52

		Highest Regional Mean	All Regions Mean	St.D.
Average	1975	1.9	1.3	0.3
Durational	1979	2.4	2.0	0.3
Disquali-	1984	2.6	2.4	0.2
fication	1990	2.7	2.4	0.2
	1984-1975	0.8	1.0	-0.1

		Lowest Regional Mean	All Regions Mean	St.D.
Average	1975	22.9	23.5	0.7
Maximum	1979	22.1	22.5	0.3
Potential	1984	22.4	23.2	0.8
Duration	1990	22.6	23.6	0.8
	1984-1975	-0.5	-0.2	0.1

SOURCE: Employment and Training Administration, 1992;
BLS, Monthly Labor Review, various years.
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TABLE 2.15
STATE TRUST FUND STRATEGIES
1984 versus 1979

State	Value of 1984 Claims (Thousands)	Change in Taxes as % Total Payrolls (Point Change)	Change in Benefit/Wage Ratio (Point Change)	Change in Insured Unemp/ Total Unemp. Ratio (Point Change)
California	$120,736	-0.30	0.3	-7.0
New York	$64,946	-0.39	-1.7	-8.0
Illinois	$50,859	N.A.	-2.9	-22.0
Pennsylvania	$44,493	1.01	0.9	-14.0
Michigan	$33,810	0.56	3.0	-10.0

Note: Illinois taxes paid as percentage of total payrolls not reported by Employment and Training Administration.

Source: US Dept. of Labor, Employment and Training Administration, "Unemployment Insurance Financial Data," various years.
IU/TU ratio from Employment and Training Administration, unpublished.

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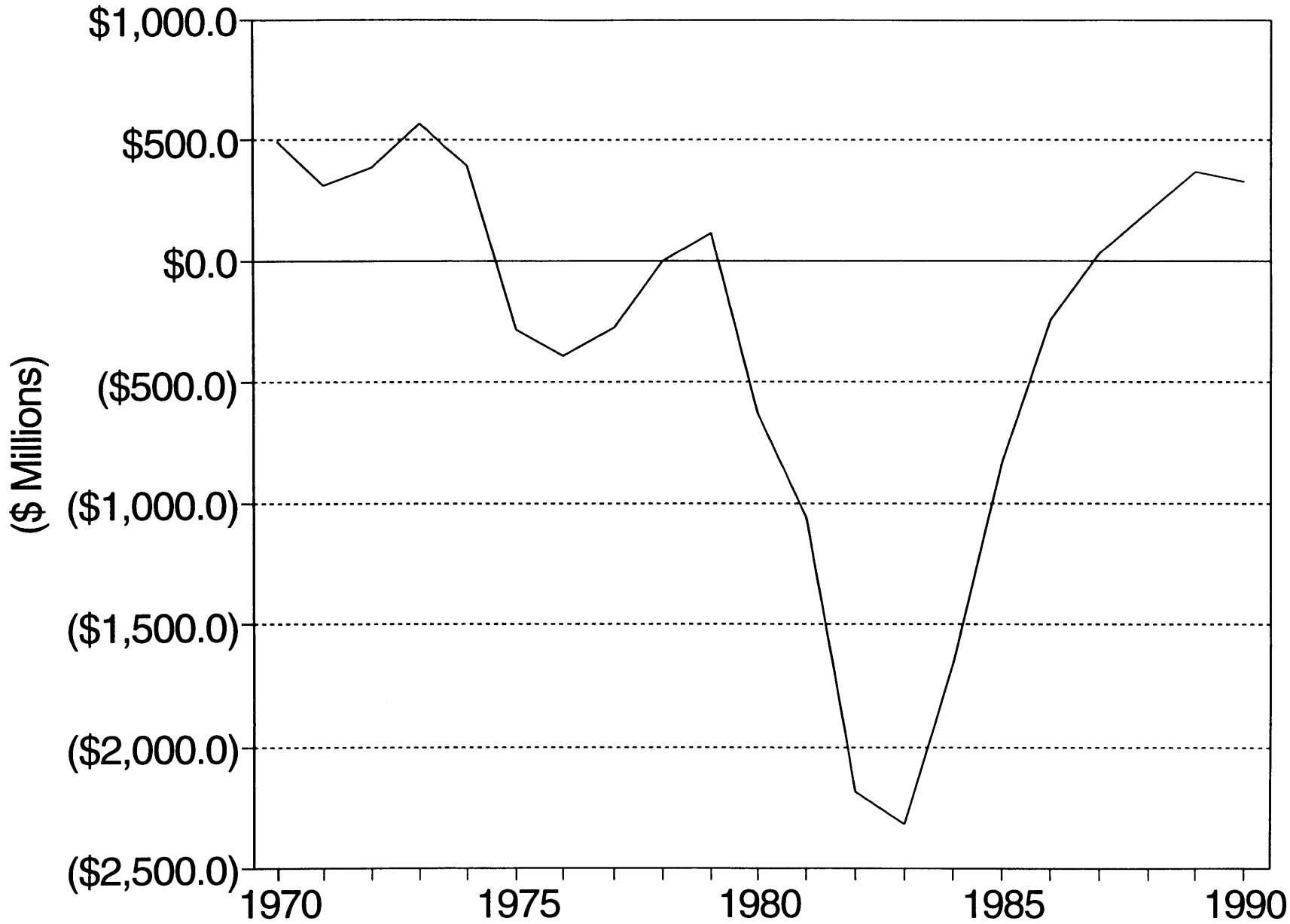
Graph 2.5

Net Trust Fund Reserves
Michigan, 1970-1990



Source: Employment and Training Administration, 1992.

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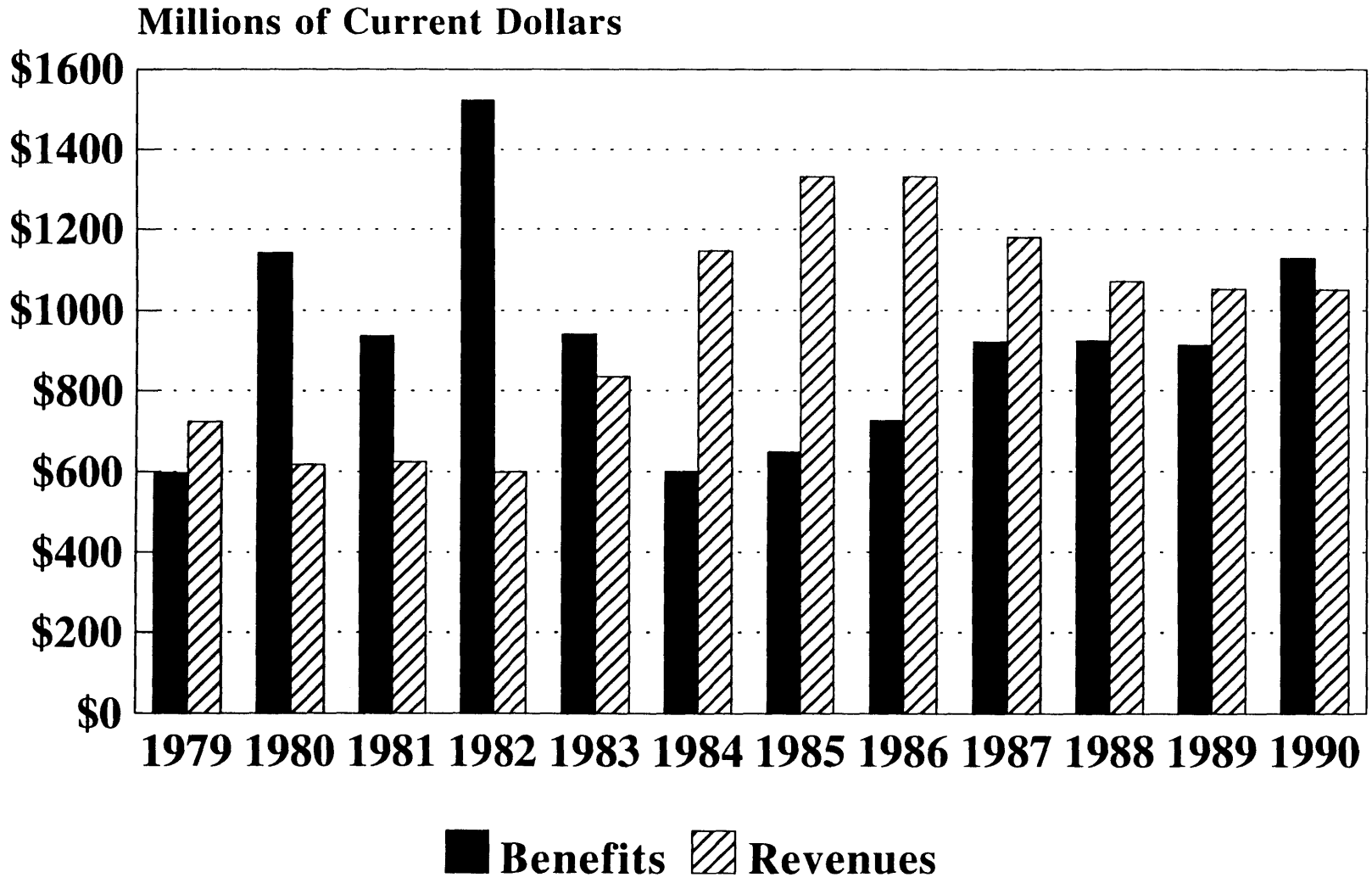
Graph 2.6

Benefit Outlays and Total Revenues



Source: Michigan Employment Security Commission, 1992.

Chapter Three
The Effect of Legal and Economic Change on Beneficiary Rates, Application Rates, and Unemployment Duration

Since the 1970s, the transformation of the US economy has plagued the UI system, and the states have responded with tightened eligibility requirements, lower maximum benefits, and tougher disqualification penalties. The pattern of downward convergence among state programs and the failure of federal and state actors to come to grips with a new economic reality has been explored in the preceding chapters. This chapter explores the cost of that failure for most of the unemployed during the 1980s by isolating the linkages among state and federal actions, economic change, and declining recipiency rates and application rates.

In the pages that follow, a brief survey of the literature on falling recipiency rates will be presented. After looking at current explanations, an alternative analysis will be offered, focusing on particular changes in state law that may improve our understanding of the assault on the unemployed. An analysis of application rates, thought by many to hold the key to declining benefit recipiency rates, follows, relying on the same data as the beneficiary rate regression. The theory here is that many of the "chilling effects" that reduce beneficiary rates are, in fact, acting first against applications. Turning briefly to the literature on work disincentives, regressions examine the fact that one of the key variables in beneficiary rate

regressions (duration of unemployment) may have endogenous effects.

Previous Studies.

There is a notable dearth of literature on the topic of declining benefit recipiency rates. Far more prevalent, as will be touched on briefly below, are studies of work disincentive effects. But beginning in the early 1980s, awareness of the widening gap between the insured and total unemployment rates sparked a flurry of activity. Investigations of the shrinking portion of the unemployed receiving benefits split in two directions: those looking at application rates specifically, and those that focused on statutory changes that directly reduced the insured/total unemployment ratio. Studies of declining application rates can, in turn, be usefully divided into those looking at microdata and those pursuing macroeconomic and legal explanations for trends in application rates.

Application rate studies (macro). Burtless (1983) was among the first to ponder the source of the growing divide. At the time of Burtless' essay, the combination of lengthening unemployment durations and divergence between the insured and total unemployment rate was just beginning to raise concern about the counter-cyclical capacity of the UI program. As Burtless shows, to some extent the divergence is a product of definitions.

The algebra of the ratio of insured unemployment rates (IUR) to total unemployment rates (TUR) is this:

(1) $$IUR_t = (IU_t / \overline{CE}_t) * 100$$

where $$\overline{CE}_t = \sum_{i=t-18}^{t-7} (CE_i / 12)$$

(2) $$TUR_t = (U_t / (E_t + U_t)) * 100$$

IUt is the sum of insured and uninsured unemployed in month t; CEt is a moving average of the number of employed workers in covered employment in month i; Ut is the total number of civilian unemployed; and Et is total civilian employment. The insured unemployed includes those who have applied for benefits but not received a determination and those serving waiting weeks. It usually excludes recipients of federal extended benefits.

By definition, the numerator of the IUR/TUR is smaller than the denominator because the former excludes exhaustees and most job leavers. The denominator excludes the self-employed and the few others not working in covered employment. Moreover, as Burtless notes, the total unemployment rate is based on a lagged employment measure. When unemployment is growing, the measure will be a few percentage points too small.

Following the algebra, as the definition of covered employment expanded, the ranks of the insured unemployed should have grown as well. But the opposite proved true.

From 1951 to 1980, the IUR/TUR fell 40 percentage points[49] while the portion of the civilian labor force in covered employment rose by one-third.

Prior to the 1980s, most of the decline in the IUR/TUR ratio may be attributable to the changing demographic and industrial composition of the unemployed. Burtless asserts that younger men and women are less likely to receive benefits and were a growing portion of the unemployed. The unemployed from manufacturing and construction industries are also thought to be more likely to receive benefits and, with coverage expanding beyond these industries, they were a declining portion of the denominator, total unemployment. No similar pattern of demographic or coverage changes can explain the 1980s.

Cyclical patterns do come into play. Burtless notes that early in a downward cycle, the portion of job losers rises. Job losers have always been the primary beneficiaries of unemployment insurance, so the IUR/TUR rises as the portion of the unemployed who are job losers rises. As a slump lengthens, benefit exhaustions reduce the IUR while the TUR stays the same. This part of Burtless' portrayal is only partially correct, however, because those who exhaust benefits may join the ranks of discouraged workers, falling outside the defined labor force, and reducing both the IUR and the TUR.

---

49 This finding is reported as a percentage decline but is actually in percentage points.

Turning to the 1980s, Burtless runs two regressions using job losers with less than 26 weeks unemployment as a regressor on the IU/U ratio. In one specification, he uses the number of job losers unemployed less than 26 weeks divided by total unemployment, explaining 90 percent of the variation in the IU/U ratio. Running the same equation with dummies for quarters in 1980 through 1982, he finds negative, significant coefficients on the dummies for the 1980s. This result indicates that the primary target of unemployment insurance, short term job losers, were markedly less likely to be insured during the 1980s.

Looking at data on initial claims, Burtless again finds significant, negative coefficients on dummies for quarters in the 1980s when trying to explain initial claims rates using the number of new job losers each month. This result indicates that unemployed job losers where less likely to apply for benefits in the 1980s than in previous periods since 1968. Again, demographic changes, industrial attachment, and work history did not change significantly enough in the early 1980s to explain the change.

Two additional sources of declining IUR/TUR rates are suggested, but not thoroughly tested. Although denial rates did not climb, benefit duration declined. This may increase exhaustions and reduce the IUR. Also, reduced benefit rates and taxation of benefits may be reducing the work disincentive effect of unemployment insurance. This would reduce only the unemployment spells of insured workers.

Thus, the ratio of insured to total unemployed will fall during the weeks which insured workers would previously have remained on UI instead of finding work.

These preliminary observations set the stage for a more thorough look at declining beneficiary rates by Burtless and Saks (1984), resulting in the "Brookings analysis" (Vroman, 1991) or "crackdown hypothesis" (Kane, 1988). Burtless and Saks chart time-series data on insured unemployment trends and application rates. They also discuss legislative and administrative crackdowns and hypothesize that the crackdown and the decline in applications are linked. They note that, beginning in 1976 and 1977, unemployment insurance offices began denying claimants benefits at a dramatically increased rate. One observations from their work sparked a series of later research:

> "If workers perceive that they have to demonstrate more initiative in searching for work and reporting for interviews at the Job Service or UI office, they might be less inclined to apply for UI benefits. The extent of this deterrent effect is, unfortunately, largely unmeasurable" (p. 38).

Measuring this effect was central to work by Blank and Card (1988, 1989) and the data analysis reported below. There is, in the Burtless and Saks analysis, little room for a regional component to declining beneficiary rates as found by other researchers. As found in the preceeding chapter, they argue that <u>all</u> regions had declining benefit recipiency

rates and all regions had administrative "crackdowns" on the unemployed.

Kane (1988) also finds that declining application rates are the primary source of declining jobless beneficiary rates, noting "a 25 percent decline in applications by new job losers between 1976 and 1984" (p. 1). Kane's work is admittedly a preliminary draft without recent updating, but like Burtless (1983) it raises fundamental issues.[50] Kane finds, among other things:

> * The ratio of first payments to initial claims was unchanged between 1976 and 1984. And the percentage of weekly beneficiaries denied benefits for work search, not reporting, or not "able and available" was unchanged. But the ratio of average weekly new claims to average job losers with less than 5 weeks unemployment rose 25 percent.
>
> * Denial rates never rose during the period of decline in UI receipt.[51]
>
> * The timing of increased denials for job search and failure to report does not match the decline in recipiency rates, calling into question the effect of "hassles" on IU/TU decline.[52]
>
> * The link between manufacturing and higher UI recipiency rates lies in higher portions of job losers among the unemployed from manufacturing. Kane does not report regressions containing both.
>
> * The portion of the unemployed who were members of multiple earner families actually declined slightly during the period of falling IU/TU rates.

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50 Kane's draft includes the usual request "Please do not cite." Even so, it is one of the most cited studies in the field.

51 As will be seen below, denial rates are only part of the story. The duration of denials also has to be considered.

52 Kane assumes denials should be concurrent with declining insured unemployment; Burtless and Saks assume the crackdown precedes declining applications.

This is contrary to theories that link multiple earners and reduced claims for UI.[53]

Blank and Card (1989, 1991) pursue two lines of inquiry into the problem of declining applications rates. Their first inquiry decomposes change in the benefit recipiency rate into three parts: (1) change in state UI law, (2) change in the demographic and industrial character of the unemployed, and (3) change in "take up" rates (essentially applications). Looking at state-level data, they note a plummeting rate of applications between 1980 and 1982.

Blank and Card are the first to attempt an estimate of eligible unemployment. Because state laws vary regarding earnings and base period work requirements, it is no simple task to calculate how many of the unemployed would actually be eligible for unemployment insurance if they were to apply. Blank and Card attempt such an estimate, simplifying somewhat the range of restrictions imposed by states. They then regress wage replacement rates for benefits, earnings requirements, disqualification rates, unionization, demographic variables, industry variables, and legislative variables onto application rates among the estimated eligible unemployed. They find:

* Higher benefit levels increase application rates.

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53 This idea is confirmed by Vroman's finding (1990) that both application rates and recipiency rates are strongly correlated with marital status for male job losers as are application rates with married female job losers.

* Earning requirements don't significantly affect applications.

* Higher disqualification rates correlate with lower application rates. But disqualification rates fell during the period, which would tend to increase application rates.

* Falling unionization accounts for half the decline in application rates.

* No demographic, industry, or party-political effects were noted.

By their analysis, disqualification rates act in two ways: they directly reduce the ranks of the unemployed who will be insured and they have a chilling effect on application rates.

Application rate studies (micro). Various studies have also explored declining benefit recipiency rates by using microdata, typically from the PSID. The second section of Blank and Card (1989, 1991), for example, estimates a logit regression for the probability of receiving unemployment insurance based on demographics, education, unionization, hours of previous work, brief unemployment duration, region, occupation and industry of previous employment. Age and gender proved significant; race and years of education did not. As in their examination of state-level data, disqualification rates are found to be a significant impediment to receiving UI benefits.

Two findings from their microdata analysis conflict with what Blank and Card found at the state level. First, the wage replacement rate for benefits was found to be insignificant and likely negative. They conclude that the

measure is too crude for micro data (which it is), but fail to note the more important problem that it is also endogenous: the benefit/wage ratio for an individual is determined at the time of application. The second conflict between their micro and state-level findings is unresolved. Unlike the state data, the micro data shows an increase in benefit recipiency rates between 1980 and 1982.

Vroman (1991) was first to analyze a set of special questions added to the Current Population Survey for outgoing rotation groups in May, August, and November of 1989 and February of 1990. These surveys included detailed questions about whether the unemployed person applied for unemployment insurance and, if not, why not. Unfortunately, 20 percent of the respondents said they didn't know why the didn't apply or rejected the survey list of reasons for not applying and answered "other".

Despite the poor response rate, certain trends are apparent. Following Burtless (1983) and others, Vroman found the average application rate for job losers, those most likely to apply and receive benefits, was only 53 percent. Of those who had not applied for benefits, 53 percent said they believed they were ineligible, further evidence of the "chilling effect" of disqualifications and eligibility requirements on application rates. About half the non-applicants believed they were ineligible because they hadn't worked enough in the previous year. No effort is made, however, to estimate whether non-applicants were,

in fact, ineligible. One implication of Vroman's findings for later research is that monetary denial rates may not rise with higher monetary qualifications because applications fall faster than denial rates would increase.

Vroman found several demographic and geographic factors that correlate with higher application rates. Longer unemployment duration consistently relates to higher application rates. As noted in the preceding chapter, there is also a clear regional pattern in the data. Application rates among job losers in the south are below average, so national beneficiary rates will fall as unemployment shifts more heavily to the south. In the absence of controls for statutory variables, observations of regional differentials are intriguing but not explained. A worthy project for the future would be to merge the micro data from the special CPS supplements and data from the statutory explanations advanced below.

Statutory explanations for declining IU/TU. Although the previous studies investigated declining application rates, others have focused directly on the IU/TU ratio, sometimes with application rates as an explanatory variable, but always with changing statutory factors as essential explanations.

The first specification of this nature was Blaustein and Kozlowski (1978). Their primary goal was an explanation of program costs and the relationship between legal restrictions and cost of benefits per covered employee.

They first test the role of the IU/TU in program cost, finding it significant. They then ask which factors influence the IU/TU, finding that statutory factors (weekly benefit/weekly wage ratio, potential benefit duration, qualifying requirements, quit disqualifications) are not significant. They reach the intriguing conclusion that legal restrictions on benefit recipiency rates will have virtually no effect on program cost. Reducing unemployment-- not limiting unemployment insurance claims-- holds the key to low program cost.

Blaustein and Kozlowski were writing before the tightening of eligibility requirements and extension of durational disqualifications that occurred in the 1980s. Corson and Nicholson (1988), in a study for the Employment and Training Administration, provide both macro and micro explanations for declining benefit recipiency rates. Their data set includes a more comprehensive list of legal provisions than any previous study.[54] Unfortunately, they do not apply their legal categories to a national sample and, as with Vroman (1990), the detail on legal changes is not incorporated into the micro analysis.

Corson and Nicholson first use demographic and economic variables to explain changes in the IU/TU ratio in a national time-series from 1971 to 1986. They then test the

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54 A prior study that included Corson (Corson, Hershey, and Kerachsky, 1986) is excellent background reading on nonmonetary qualifications and their effects across states.

role of federal program changes and state legal changes in explaining decline in the IU/TU ratio for state programs in the 11 largest states. They find 30 to 40 percent of the decline in IU/TU rates is due to state legal changes. The explanatory variables in the 11 state sample includes manufacturing unemployment and job losers in one specification, but no individual characteristics such as race or gender. Although more comprehensive than previous tests of legal changes, the Corson and Nicholson study excluded specific treatment of durational disqualifications and was limited by the focus on 11 largest states.

The micro analysis of Corson and Nicholson used PSID data and a logit regression of whether an unemployed person received benefits. They found significant correlations with manufacturing (+), race (Black, -), unionization (+), and short spells of unemployment (-). They included manufacturing, but not whether the individual was a job loser. Correlation between these two categories is high and could have been usefully modeled. The data holds further clues about application rates: in 1982, almost half the respondents hadn't applied for benefits because they (1) expected to find work (22.3 percent), (2) don't like unemployment insurance (16.6 percent), or (3) had administrative access problems (10.2 percent). Almost half of those who hadn't applied for benefits fell into these three categories. Another 18.3 percent of those surveyed applied but were denied benefits.

Picking up on the statutory analysis of Corson and Nicholson (1988), Baldwin and McHugh (1992), writing for the Economic Policy Institute, tested the role of legal variables in declining UI claims from 1979 to 1990. Their data set included state and year variables along with UI program variables, demographics, and economic variation across states. They were the first to examine the role of durational disqualifications in lower benefit recipiency rates, with both quit and work refusal disqualifications found to be significant explanatory variables for declining benefit recipiency rates. As with Corson and Nicholson, they found race, manufacturing, job loser rates, and unionization to be significant explanatory variables. Benefit taxation was poorly measured in their model, as were exhaustion rates, and there was no reported analysis of application rates.

Table 3.1 summarizes the literature on declining IU/TU rates and application rates.

[Table 3.1]

Data to Explain Benefit Recipiency Rates, Applications, Duration of Unemployment.

To explain changes in the benefit recipiency rates, application rates, and unemployment duration, a pooled cross-section, time series database was built including values for every year and state from 1979 to 1991. It

includes variables to measure economic and demographic differences across states, state legal changes, and federal pressures on state unemployment insurance programs.

Dependent variables in the regressions that follow include:

* The natural log of the insured unemployment to total unemployment ratio (ln IU/TU) for all programs,

* The natural log of initial claims to total unemployment (ln APPS/TU) to measure application rates,

* The percentage of all unemployment that is of 15 weeks or more duration (DURAT15).

Variables available to measure state context, economic differences, and demographics include:

* Unemployment rate (UNEMRT) and previous unemployment rate (UNEMRT-1),

* Percentage of the unemployed who are job losers (LOSER),

* Percentage of employment that is in manufacturing (MANU),

* Percentage of labor force that works part-time (PCTPRT),

* Percentage of labor force that is female employment (PCTFEM),

* Percentage of labor force that is black employment (PCTBLK),

* Percentage of labor force that is teenage employment (PCTTEEN),

* Union membership as a percentage of all employment (UNION),

* AFL-CIO rating of Senate delegation (COPE). This variable is intended as a proxy for political climate, much like the Democratic variable was in Blank and Card (1991). The COPE variable is a better measure, however, because it more

specifically relates to the behavior of elected officials. Not all Democrats act like Democrats...

* Right-to-Work state (RTW yes, no),

* Percentage of unemployment that is brief (DURAT5, under 5 weeks),

* Percentage of unemployment that is lengthy (DURAT15, over 15 weeks).

Federal changes are measured in three ways:

* Taxation of benefits (BENTAX2) discussed below,

* Changes in taxation of loans (HCMULT-1),

* Extended benefits (EB yes, no).

State legal changes are estimated with the following:

* Maximum potential duration of benefits, in weeks (MAXWKS),

* Exhaustion rate as a portion of benefit recipiency rates (EXRATE and EXRT2),

* Average number of benefit weeks actually paid per claimants (WKSBEN),

* Average benefits as a percentage of average weekly wages (BENWG),

* Percentage of first claims paid within 14 to 21 days (TIMELY),

* Waiting week (WAIT yes, no),

* Earnings requirements for minimum benefits (BMIN), maximum benefits (BMAX), and maximum benefits at maximum duration (MBEN),

* Durational disqualifications enforced for quitting previous employment (DURQ), refusing suitable work (DURR), or misconduct discharge (DURD).

* Disqualification rates (DQ).

Table 3.2 displays means and changes between 1979 and 1991 for the explanatory variables and dependent variables.

[Table 3.2]

Many of these variables have proven significant in previous literature. Three variables are included for the first time or measured more accurately: benefit taxation, durational disqualifications, and exhaustion rates. First, the measure for taxation of benefits is a more accurate representation of the role of this federal change. Although federal law regarding benefit taxes applies to all states, variation in benefit levels and durations will mean that the tax will fall with differing levels of severity across states. Corson and Nicholson (1988) measure this change by calculating the percentage of a state's population whose incomes were above the threshold for benefit taxation. This is then interacted with the wage replacement rate and both wage replacement and the interaction variable were included in their regressions.

The Corson and Nicholson measure for taxation will capture some of the differential effects across states, but miss variations in benefit duration which will alter the earnings levels of recipients over the course of a tax year. To more accurately measure the effects of benefit taxation,

the database used here measures benefit taxation by first assuming average earnings of the insured unemployed in a state with this formula:

$$(WKSBEN*BEN) + (52-WKSBEN)*(AWW) = \text{PRE-TAX INCOME}$$

Yearly income of a UI beneficiary is the sum of income from insurance (weeks of benefits times amount of benefits) plus income before being unemployed (weeks worked, assuming no delay in benefits, times average weekly wage). Two tax estimates are generated with these figures, a pre-benefit tax rate and a post-benefit tax rate based on changing thresholds for benefit taxation over time and using federal tax tables and standard deductions for single individuals.[55]

In preparing regressions, estimated taxation was initially incorporated in two ways. BENTAX is the difference between post-benefit tax payments and pre-benefit tax payments all divided by annual benefits (the first term in the equation above). BENTAX2, the preferred measure, expresses the difference in tax payments as a percentage of total pre-tax income. Because figures are averages for each state, either method is deficient for capturing the effect of earlier thresholds which affected only higher income recipients within a given state. It also understates the additional tax burden imposed where states rely on federal

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55 Some states include dependent's allowances in their average weekly benefit calculations, leading to mistakenly high estimates of benefit levels for single, childless beneficiaries.

definitions of income for their own income taxes, or where states have no income taxes.

A second change involves measures of exhaustions. The measure provided by the Employment and Training Administration expresses exhaustions as a percentage of first payments. It relates to flows into and out of the program. From previous work and in preliminary regressions, this measure of exhaustion rates consistently shows a misleading positive correlation with benefit recipiency rates: more exhaustions, higher IU/TU ratios. One explanation for this relationship is that a claimant must be insured in order to exhaust benefits, so the rates move together, though not identically. To eliminate that misleading positive relationship, exhaustion rates (EXRT2) are expressed here as a ratio of exhaustions per first payments all divided by the benefit recipiency rate. This specification gives the desired result that a constant exhaustion rate and lower benefit recipiency rates result in higher EXRT2 values.

The third addition to previous work is the inclusion of durational disqualifications as explanatory variables. It has become common practice to include denial rates in benefit recipiency rate and applications regressions. Denial rates can be interpreted in two ways. High denial rates will directly reduce the IU/TU ratio. But it is also possible that low denial rates signify self-restriction on the part of potential claimants. States with a reputation

for tough administration may have low denial rates and low application rates. As discussed in Chapter Two, the database used here instead models a critical change in the 1980s, the expanded use of durational disqualifications. This is modelled using a yes/no dummy for the presence of this type of disqualification. Durational disqualifications are expected to reduce benefit recipiency rates by excluding many claimants from receiving benefits until they have secured new employment. Durational disqualifications for voluntarily leaving employment may also reduce unemployment durations by influencing an employed worker's decision about quitting.

Table 3.3 shows how these variables are expected to influence benefit recipiency rates, application rates, and unemployment duration.

[Table 3.3]

In some cases relationships are expected, but not expected to be strong. For example, durational disqualifications are likely to reduce unemployment duration but not significantly, particularly given the presence of other causal factors.

Many of the relationships anticipated in Table 3.3 are not surprising, but some may be. The variable TIMELY, for

timely first payments, is expected to have two kinds of effects. First, it has the direct effect of putting money into claimants hands in a short time, which is likely to make applications more appealing. But it is also likely to be strongly correlated with other administrative variables which are not measured or cannot be measured, such as stringency of work tests. The timely payment of benefits may require administrative procedures and oversight that are relevant in areas that are not measured here.

Table 3.4 is a rough test of the idea that timely payments correspond to strict accounting and administrative policies:

[Table 3.4]

On the horizontal axis are measures of work test strictness from an Employment and Training Administration study using data from 1985 (Corson, Kerachsky, and Kisker, 1987). The research team who compiled this data grouped 10 states into three groups based on the "strictness" of their work search requirements. On the vertical axis is the grouping of those 10 states into below average and above average for timeliness of first payments. Although admittedly a rough test on a severely limited sample, the crosstab results

support the idea that the variable for timely payments will correlate positively and significantly with stricter work search requirements which are unmeasured for the larger sample.[56] That being the case, a negative correlation between timely payments and duration will be likely. The speed of benefit payments may not affect unemployment duration or the benefit recipiency rate, but the role of work test requirements may reduce the length of unemployed spells or reduce application rates.

Before turning to the regression results, it's important to make several qualifying statements regarding the data. All measures are annual averages, a fact which poses several problems in the context of unemployment insurance. The timing of legal and program changes will not be captured exactly in annual data. This is particularly a problem for the Extended Benefits variable given that states "trigger" on or off at a given point in the year, but the EB variable is 1 or 0 for an entire state/year observation. Likewise, the duration variables are averages for the year and will not correspond directly to unemployed individuals across a given year. All measures are also state-level. This level of data limits the applicability of the variables

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56 A significant information gap exists for time series research on unemployment insurance programs. Only in the 1980s, with the quality control program, did extensive collection of administrative, as opposed to financial, data begin. Unsatisfying proxies for important program characteristics such as job search requirements are therefore common.

for some questions, particularly relating to duration of unemployment as discussed below.

Explaining Variation in Benefit Recipiency Rates.

It is clear to those who have observed trends in unemployment insurance law during the 1980s that various changes have been pursued to increase trust fund balances and reduce program costs. The relationship between legal changes and benefit recipiency rates can be measured with some statistical accuracy through regression models, but a more accessible portrait of interstate variation is shown in Table 3.5.

[Table 3.5]

It compares the 10 states with highest and lowest insured unemployment rates in 1991. All the states with lowest benefit recipiency rates paid benefits to one-fourth or fewer of their unemployed workers. They tend, on average, to pay a lower percentage of average weekly wages. They tend to have higher minimum earnings requirements. And they tend to have about half the unionization level of the five best states for jobless beneficiary rates. Although the picture is less stark, it is also noteworthy that every one of states with lowest benefit recipiency rates has all three types of durational disqualifications on their books.

Alaska, at the other end of the spectrum, has no durational disqualifications.

A snapshot of program differences and benefit recipiency rates such as that in Table 3.5 was the original impetus for building the database from which this study is drawn. It begs the questions: how dramatically have benefit recipiency rates varied during the 1980s, and how can we isolate the effects of state legal changes in that transformation? First, a look at benefit recipiency rates. Graph 3.1 charts the decline and increase in benefit recipiency rates between 1979 and 1991, illustrating several characteristics of the program.

[Graph 3.1]

First, at no time during the period under study did more than 43 percent of the unemployed receive benefits. Second, the percentage of the unemployed receiving benefits declined steadily from 1982 to 1984, stayed below about one-third for five years, and then rose steadily to 1991, though never regaining 1980 levels. Third, it is striking that a larger percentage of the unemployed received benefits in 1980 than in the deep recession years of 1982 and 1983.

The regressions that follow were weighted to account for heteroscedasticity across state observations due to differences in sample sizes. Observations were weighted by the average total unemployment for each state from 1979 to

1991. This weighting was chosen in part because total unemployment is the denominator in the dependent variable of two of the regressions. The average for the period was used to smooth the unemployment series. Any weighting scheme involves tradeoffs. In this case, the efficiency gains from weighting the dependent variable should be considered in light of also weighting the independent variables, of which the majority are binomial and constitute values for the total population. Results from unweighted regressions are included in Appendix B and are not fundamentally different from the reported findings.

Various versions of covariance models were tested and rejected on the basis of F-tests and underlying theory.[57] The goal was a model that would minimize the role of dummy variables, particularly for the years 1983 to 1989 and for the regions. Ideally, whatever variation would be captured by these dummies would be directly modelled by the measured variables.

Table 3.6 presents two models to explain declining recipiency rates, the first with only regional dummies and the 1983-1989 dummy (Column One) and the final regression (Column Two).

[Table 3.6]

57 The regressions that follow were also attempted with covariance models. Fixed-effect models were rejected with F-tests of $F_{30,506} = 27.8$, $F_{30,559} = 62.7$, respectively, for the benefit recipiency rate and application regressions.

The additional statutory and economic variables reduce the coefficient on the 1983-1989 dummy in column one by 76 percent. All of the coefficients on regional dummies decline dramatically and two (Rustbelt and Breadbasket) cease to be significantly different from zero.

Some of the reported results are in keeping with previous literature. Application rates and the percentage of the unemployed who are job losers have the predicted strong positive effect on benefit recipiency rates. Job loser rates, the population for whom the system was originally designed, are predictably, strongly correlated with benefit recipiency rates.

An important finding is that high minimum earnings requirements significantly reduce benefit recipiency rates. Of the durational disqualifications tested, those due to refusing suitable work are found to be significant and reduce benefit recipiency rates. The positive sign on the misconduct durational disqualification is anomalous, but may indicate that states are less likely to apply this disqualification given its severity. Disqualification rates are found to be one of the most robust variables for explaining changes in recipiency rates. At the other end of a spell, high exhaustion rates explain a substantial portion of the variation in the percentage of the unemployed receiving benefits.

Both the COPE rating and unionization are positive and significant. These measure two different aspects of the political context of unemployment insurance. COPE is a proxy for the effect of pro-claimant legislative activity that may not be modeled explicitly in other variables. Unionization, on the other hand, is understood to play a role in information provision. It is noteworthy that unionization remains significant though job loser rates and manufacturing are included in the equation. This buttresses the perspective that unionization plays a role that is distinct from the industrial context or layoff patterns within which unions operate. The negative coefficient on Right to Work captures the linkages among Right to Work laws, lower unionization, and unmeasured anti-claimant policies in Right to Work states.

One of the coefficients that proved significant has an unexpected sign. Manufacturing is found to have a significant negative correlation with benefit recipiency rates. The Pearson's r for manufacturing and the insured unemployment rate is positive, but very low (.03). The effect of manufacturing on the percentage of the unemployed receiving benefits is influenced by the impact of other more significant variables with which manufacturing is highly correlated: application rates, exhaustions, benefit durations, wage replacement rates.

Although 88 percent of the variance in the log of the percentage of the unemployed receiving benefits is

"explained" by this model, it also illustrates the gulf that exists between accounting for variation and pinpointing the causes of change. Specifically, the dummies for the period 1983 to 1989 and for two regions remained significant.

Although the variable for measuring the effects of gender does not prove significant, coefficients on variables that affect men and women differently do prove significant, supporting assertions that women are disproportionately excluded by recent state behavior (Pearce, 1993; 1991). Minimum earnings requirements, for example, reduce women's benefit recipiency rates by more than men's because women account for 45 percent of the labor force, but two-thirds of minimum wage workers. Women are also more likely than men to have quit a job (19.1 percent versus 15.7 percent, respectively) (Wider Opportunities for Women, 1993). Only eight states have statutes recognizing sexual harassment as good cause of quitting. Case law in almost all states, however, does include sexual harassment as just cause. More significantly anti-female is the trend away from personal, as opposed to work-related, good cause for quitting.

Table 3.7 uses the regression results to allocate the fall in benefit recipiency rates among the explanatory variables between 1979 and 1984, the year with lowest benefit recipiency rates in the sample. Variables with insignificant coefficients are not shown because their impact cannot be predictably measured.

[Table 3.7]

The change in the mean between 1979 and 1984 of an explanatory variable is multiplied by the coefficient for that variable to estimate the change that would have occurred if that variable alone had changed. The second column from the right computes the decline in benefit recipiency rates from 1979 that would have occurred due to change in a given variable alone. The final column divides the estimated contribution of a given variable by the actual change in the log of the IU/TU ratio. The fit between the model and the change from 1979 to 1984 is not exact; the model understates the decline by about 5.6 percentage points. The variables are divided into categories. Some legal changes act to directly exclude claimants (exclusionary variables), while some reduce durations or benefit levels (benefit standards). Background variables include demographics and economic change.[58]

By this accounting, the largest effect of a single variable on benefit recipiency rates was due to falling application rates, as previous authors have concluded. The exhaustion rate and minimum earnings requirements were distant second and third among legal variables. Acting alone, the fall in application rates, the rising exhaustion rate, and higher earnings requirements would have decreased

58 The structure of these tables owes much to discussion with attendees of the National Employment Law Project conference in Washington, DC, March 30, 1993.

IU/TU rates by 13.6 percent, 5.2 percent and 2.5 percent, respectively, or 59.8, 22.7, and 10.9 percent of the actual decline.

The increase in job losers among the unemployed would have increased the IU/TU ratio by 8.9 percent, a substantial 39.0 percent of the recorded decline, if other changes hadn't occurred. Declining unionization accounts for about a 2.2 percent decline in benefit recipiency rates, or 9.5 percent of the total decline. As asserted, the exclusionary variables explain the largest portion of the decline in benefit recipiency rates (70.6 percent), all else held constant. Change in the variables grouped as benefit standards would have reduced recipiency rates by 5.7 percent, or 25.2 percent of what actually occurred.

This summary confirms the assertion that the current unemployment insurance system is poorly designed for the new economic context. Variables which relate to lengthy unemployment spells (exhaustion rates, unemployment rates, job loser rates) all prove significant and have large impacts. Moreover, the regulatory responses of the states is shown to have the expected negative impact: high minimum earning requirements, durational disqualifications for refusing work, and exhaustion rates are found to reduce benefit recipiency.[59]

59 The fact that disqualification rates declined may be an exception that proves the rule. Disqualification rates declined, but the decline in application rates had a larger impact, i.e., application rates fell faster than disqualification rates.

Taken together, changes in the identified demographic and labor market variables would have increased the jobless beneficiary rate by 9.4 percent if state action hadn't contributed to reducing recipiency rates by 21.8 percent.[60] This table also shows that 20.8 percent of the decline in the benefit recipiency rate is captured by a dummy variable for 1983 to 1989, leaving a large gap in our knowledge about causes of declining benefit recipiency.

Table 3.8 repeats the method used in Table 3.7 to allocate change among the variables. This table, however, is used to model the increase in benefit recipiency rates during the late 1980s.

[Table 3.8]

This table addresses the sources of improvement in the beneficiary rate and raises the issue of why the rate didn't climb more substantially.

The most striking result in this table is the outstanding role of application rates and job loser rates in improved benefit recipiency rates. Application rates alone among the legal variables (exclusionary and benefit standards) account for almost all the improvement in benefit

60 If application rates are not counted as legal variables, the remaining variables would still account for a nine percent decline in benefit recipiency rates.

recipiency rates during the period. All other legal effects cancel out. Likewise, increasing job losers among the unemployed account for substantially all the change due to underlying economic conditions. These findings suggest that the recent improvement in the percentage of the unemployed receiving benefits should not promote complacency. The downward pressure on recipiency rates imposed by high earnings requirements, declining unionization, and durational disqualifications remains intact despite the apparent recent improvement in benefit recipiency.

Explaining Variation in Application Rates.

A graphic picture of application rates is provided in Graph 3.2.

[Graph 3.2]

Like benefit recipiency rates, application rates plummeted between 1980 and 1983. Also like benefit recipiency rates, application rates never returned to 1980 levels. But the average for application rates across the sample fell between 1990 and 1991 while the benefit recipiency rate rose.

Table 3.9 shows the coefficients for variables that explain variation in the log of application rates across states and years.

[Table 3.9]

The dummy for the period 1983 to 1989 is significant and negative, showing that part of the significantly lower mean benefit recipiency rate from 1983 to 1989 is due to particularly low application rates, but still not explained by the explicit variables present.

Most of the relationships are as anticipated. Job losers, manufacturing workers, and union members are more likely to apply for benefits than other potential claimants. Teenagers are understandably less likely to apply for benefits, confirming the negative correlation between teenage employment and benefit recipiency rates.

Longer unemployment durations correspond to lower application rates in the model. Benefit durations could have had two effects on application rates. Positive correlation would result if lengthy potential payments induced higher application rates. This could have been measured with the maximum potential weeks variable.[61] Negative correlation is due to elimination of multiple spells of unemployment and multiple applications (if, for example, claimants who receive benefits find more stable employment after longer insured spells or finish a year in a

61 Earlier results were criticized for including average weeks received, instead of potential weeks, in the IU/TU regression. That critique was valid and the final regression reflects it. For the application rate regression, however, weeks received is used to control for the fact that lengthy spells with benefits will reduce the need to re-apply.

given spell). Lengthy benefit durations, long unemployment spells (15 weeks or more), and high unemployment rates are also associated with lower application rates because other factors are isolated in the model.[62] After accounting for unemployment among high-application rate groups such as job losers, manufacturing workers, and union members, the denominator of the application rate (total unemployment) will climb without corresponding increases in the numerator (applications) as durations lengthen and the unemployment rate rises.

Factors which affect the level of benefits received are found to significantly relate to application rates. Higher wage replacement rates correlate with higher application rates. Federal changes in benefit taxation, which effectively reduce benefit levels, correlate with lower application rates.[63] The results indicate that potential applicants weigh the costs and benefits of applying, accounting for taxation and benefit levels, and decide not to apply if benefits are "too low". This behavior may seem strange given that not applying guarantees a zero wage replacement rate. Even with wage replacements less than 50

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62 In contrast, Vroman (1991) found a positive correlation between lengthy unemployment duration and application rates.

63 Discussants associated with National Employment Law Project conference stated that they knew of no instances where claimants did not apply because of taxation. Even so, the correlation was significant and negative under various specifications.

percent and payment of taxes, benefits would be greater than zero!

The riddle may be solved if the relevant comparison for a potential claimant is not possible benefits versus no benefits, but instead the potential for receiving any benefits versus the effort of applying. Low benefits are only part of a calculation that includes odds of receiving benefits and effort to claim them. The regression results show that higher earning requirements for maximum benefit payments and maximum duration negatively affect application rates. As this earnings requirement rises, application rates fall. These results confirm behavior noted by Blank and Card (1988) regarding non-applicants whom they calculate would have been eligible. In their model, as qualifying requirements and denial rates rise, the number of unemployed who think they are eligible and should apply will fall--fall faster, in fact, than the disqualification rate would have risen (which may explain the insignificant coefficient on denial rates in the result reported here).

Table 3.10 repeats the format of Tables 3.7 and 3.8 using the coefficients from the application rate regression, the change in means from 1979 to 1984, and the same categorization of variables.

[Table 3.10]

Only one of the legal variables changed in a manner that would increase application rates. Thus, it cannot be said that application rates, not state legal changes, are the key to declining benefit recipiency rates; application rates are themselves a function of tougher legal standards. Legal variables explain 10.9 percent of the decline in application rates, and economic and demographic variables explain 41.8 percent. Demographic variables, acting alone, would have increased application rates by 2.7 percent during the time period.

The taxation of benefits, reduction in wage replacement rates, and higher earning requirements for maximum benefit levels and duration account for 1.4 percent, 1.4 percent, and 8.0 percent, respectively, of the decline that occurred. The labor market variables had larger impacts. All else being constant, falling unionization rates and manufacturing employment would have combined to reduce applications by 7.9 percent, or about 48.8 percent of the actual decline in application rates. Had the increase in job losers occurred in isolation, application rates would have risen by 6.8 percent, again indicating the central effect of legal changes on application rates. To a greater degree than in the benefit recipiency regression, the dummy for 1983 to 1989 accounts for much of the change in applications (41.7 percent) without, again, suggesting specific causes.

The application rate regression provides further evidence of the role of a changed economic and legal context in programmatic decline. Specifically, as noted at the outset, the growth of long term unemployment has exceeded the capacity of the existing system. In keeping with findings of the recipiency rate regression, variables relating to lengthy unemployment spells (long duration of unemployment, earnings for maximum benefits and maximum duration, durational disqualification for discharge, high unemployment rates) all correspond to lower application rates under the current system. Another core fact of the new economy, declining unionization, plays a key role in reduced application rates, as it did in reduced benefit recipiency rates. And, as noted, almost every legal change that proved significant had a negative effect on application rates.

Table 3.11, like Table 3.8, allocates change among the variables to explain recent improvement, in this case relative to application rates.

[Table 3.11]

Three facts are clear. First, the sum of the effects of changes in the exclusionary and benefit standards legal variables was negative, suggesting that legal changes would

have continued to reduce application rates during the period if economic and demographic factors hadn't come into play. Second, the decline of manufacturing and unionization continues to erode application rates, even though the application rate has improved somewhat in recent years. Third, the dummy variable accounts for a substantial portion of the total change (55.8 percent) that would have occurred if all else held constant. This suggests that we are still a long way from understanding the factors that influence application rates.

Explaining Variation in Duration of Unemployment.

The effect of unemployment insurance on duration of unemployment has been tested *ad nauseum* (Munts and Garfinkel, 1974; Ehrenberg and Oaxaca, 1976; Classen, 1977; Welch, 1977; Fishe, 1982; Moffitt and Nicholson, 1982; Grossman, 1989; Fallick, 1991). Despite the seemingly exhaustive literature, it seems worthwhile to place that discussion in the context of the current database. The deleterious effects of unemployment insurance benefits will only exist if potential workers are receiving benefits. Perhaps the drop in claims during the 1980s would have been responsible for a modest decline in unemployment duration if other events had not occurred.[64]

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64 State-level data is too broad to provide definitive answers to questions of unemployment duration. The remarks that follow are understood to be quite speculative.

Graph 3.3 illustrates the trend in the portion of the unemployed who were jobless 15 weeks or longer.

[Graph 3.3]

The percentage climbed rapidly from 1979 to 1983, when over 36 percent of the unemployed in the sample were out 15 weeks or longer. Note that, before controlling for other factors, this graph bears little relation to the benefit recipiency graph, Graph 3.1.

Table 3.12 presents the results of a regression using the percentage of the unemployed who suffered unemployment for 15 weeks or longer as a dependent variable.

[Table 3.12]

Despite a limited range of variables to account for economic change, the regression explains 83.9 percent of the variance in percentage of unemployment that is 15 weeks or longer.

The demographic and labor market variables show that union members, job losers, and part-time workers were more likely to have long spells of unemployment. This finding confirms previous studies and will play a role in the reform program proposed in Chapter Four. Teenagers had fewer long

unemployment spells, but the data does not suggest how many left the labor force altogether rather than finding employment. The result that quit disqualifications are associated with lower unemployment duration is also not surprising. This is presumably true because such disqualifications increase the opportunity cost of delaying job changes after quitting. The dummy for 1983 to 1989 is significant, but only three of the four regional dummies are.

It may be surprising to note that the coefficient for the benefit recipiency rate is negative and significant. This means that as more of the unemployed receive benefits, the portion unemployed 15 weeks or more declines, all else held constant. This unexpected result occurs despite the fact that the data show long benefit durations and high wage replacement rates lengthen unemployment durations, as most economists would expect.

There are several possible explanations for the negative correlation between the percentage of the unemployed receiving benefits and lengthy unemployment spells. First, as suggested by Ben-Horim and Zuckerman (1987), unemployment insurance benefits may aid in job search. Individuals with limited private resources may be able to intensify their job search, and reduce their unemployment duration, through benefit claims. Policies to heighten this effect will be discussed in the concluding chapter.

Second, unemployment insurance programs do more than pay benefits. They require various job search behaviors or other qualifying factors in order for a claimant to receive benefits. It is likely that, after controlling for benefit levels and duration, the additional effect of benefit recipiency is to reduce unemployment spells through pressure for job search. In discussion of the benefit recipiency regression it was suggested that timely first payments are positively correlated with stringent job search requirements. In the preliminary formulations of the duration regression, the coefficient on timely first payments was never significant but the sign was always negative, as anticipated.

Third, many who analyze unemployment insurance data report figures for the unemployed out of work 27 weeks or longer (Kane, 1988; Corson and Nicholson, 1988), and it is easy to assume that 26 weeks is the duration of most state programs. Twenty-six weeks is, rather, the maximum duration of most state programs. Most recipients receive benefits for far less time. It may be that recipients wait until their benefits are exhausted before searching for work. If the unemployed found jobs rapidly after beginning their search in earnest, but didn't begin looking until they exhausted or were about to exhaust benefits, then the duration of unemployment benefits would be positively correlated with duration, but the benefit recipiency rate would be negatively correlated with long unemployment spells

because benefits tend to be less than 15 weeks. Further evidence of this effect is present in the negative correlation with exhaustions. Similarly, Fallick (1991) provides estimates that the effect of unemployment benefits disappear as the date of expiration nears.

Solon (1984) and others have estimated the effect of benefit taxation in reducing the duration of unemployment among high income recipients. Using the data under discussion here, the coefficient on the benefit taxation variable was always negative, but rarely significant, in preliminary specifications of the duration regressions. Although there are plausible explanations for a negative effect of taxation on unemployment duration, particularly given the positive role of wage replacement on duration, the role of taxation is more ambiguous. If taxes were withdrawn from each check, the case for taxation reducing duration would be stronger. As it is, the findings reported above are more logical: taxes may discourage applications by reducing anticipated benefits, but they will have minimal effect on unemployment duration because they reduce benefits ex post.

Table 3.13, like Tables 3.7, 3.8, 3.10, and 3.11, isolates the effects of changes in significant variables on the dependent variable, in this case the percentage of all unemployment that is 15 weeks or longer.

[Table 3.13]

The change in the mean of each variable from 1979 to 1984 is estimated and multiplied by the coefficient on that variable. The result is expressed as a percentage change from 1979 and as a percentage of the actual change in the mean of the duration variable. All legal variables combined would have increased the portion of unemployment that is long term by .8 percent, or 1.2 percent of the actual increase. The decline in the benefit recipiency rate over the period is estimated to add 5.6 percent to the portion of all unemployment that is longer duration. The vast majority of the increase in longer duration unemployment is attributable to labor market changes (76.1 percent). The change in job losers alone would account for a 16.2 percent increase in longer unemployment spells, or 24.8 percent of the actual increase. About 97 percent of the actual change in durations during this period is accounted for by the model.

Despite the seemingly exhaustive econometric dissection of the effects of UI on unemployment duration, one must wonder, based on the findings here, whether the role of economic and programmatic context has been thoroughly incorporated into previous models. In particular, it seems clear that, during a period of declining benefit recipiency rates and low wage replacement rates, the effect of labor market disadvantages should easily dominate the the effect

of UI in explaining unemployment durations. Summarizing the findings of Corson and Dynarski (1990), the House Ways and Means Committee put the case quite succinctly: "Most workers who exhausted their UI benefits were still unemployed more than a month after receiving their final UI payment, and a majority were still unemployed two months after receiving their final UI payment" (House Ways and Means, 1992). Striking confirmation of this observation is made by Robert Topel, whose earlier work linked experience rating to increased unemployment. He recently countered his earlier work by flatly stating: "In short, there is no apparent connection between social programs and rising joblessness" (Topel, 1993).

Summary.

Every President from Truman to Carter issued a call for more federal standards to support the rights of unemployment insurance claimants. In the 1980s, in contrast, all federal activity worked against unemployment insurance claimants. From benefit taxation to Extended Benefit triggers, the federal government became an active participant in reducing the percentage of the unemployed receiving benefits. This chapter has tried to quantify the effects of state legal changes, occurring with the encouragement or passive approval of federal actors, in reducing benefit recipiency rates and application rates. It has revealed, among other things:

* The large role in determining recipiency rates attributed by many to falling application rates and to changing numbers of job losers among the unemployed is correct. But legal changes acting alone would have reduced the benefit recipiency rate by 21.8 percent between 1979 and 1984.

* Application rates are not exogenous, but are themselves affected by legal changes. Between 1979 and 1984, legal changes, acting alone, would have reduced application rates by 1.2 percent. Only a 4.6 percent decline in application rates (or 41.8 percent of the total decline) can be attributed to labor market changes.

* Unemployment durations are not measurably shortened by benefit taxation, though data constraints limit the strength of that finding. A stronger finding, however, is that higher benefit recipiency rates are associated with unemployment spells of less than 15 weeks. Clearer still is the fact that economic variables, not legal variables, explain most of the variance in lengthy unemployment duration across states (76.1 percent of the total change from 1979 to 1984). This suggests that changes in unemployment insurance law that restrict claimant access to benefits are a poor tool for reducing long spells of unemployment.

The statistical evidence presented here confirms the idea that the dominant response of state actors to the funding crisis they faced in the 1980s was exclusion of claimants, not just reducing benefit levels for those claimants who were eligible for benefits. When the National Commission recommendations for federal standards were ignored, states responded by excluding claimants to protect their trust funds and enhance their business climate.

We now have the basis for advancing a reform program that responds to the needs of claimants, enhances the counter-cyclical capacity of the program, and sets the stage

for deeper reform. The benefit recipiency rate can be raised by relaxing earnings requirements, reducing benefit exhaustions, and limiting the severity and rate of disqualifications. These same changes, along with higher benefit levels, will also increase applications. Such a pro-claimant program, acting against the "race to the bottom" by states, is a necessary precondition for moving the unemployment insurance system into the 21st century. But to effectively match this important social insurance system to its economic context, reform will have to go beyond quantitative changes and increased federal monitoring. It is toward that project that we now turn.

TABLE 3.1
Studies of Declining Benefit Recipiency Rates

BLAUSTEIN AND KOZLOWSKI, 1978

Dependent variable:	Insured unemployment rates, 1973, 1974, 1975.
Method:	OLS, cross-section with 52 jurisdictions.
Variables:	Weekly benefits as percent of average weekly wage, potential duration of benefits, work requirement in weeks, voluntary quit durational disqualification.
Significant variables:	None.
Note:	Authors argue that statutory provisions have no effect on benefit receipt rates. IU/TU does alter costs of ui programs, however, so lower unemployment, not tighter ui requirements, is only way to control business taxes.
Analysis of applications?	No.
Analysis of statutory variables?	Yes.
Identifies regional component?	No.

BURTLESS, 1983; BURTLESS AND SAKS, 1984

Dependent variables:	Insured/total unemployment ratio; initial claims.
Method:	OLS on CPS data from 1968 to 1982, dummy variables to capture decline in the 1980s.
Variables:	Short-term job losers among the unemployed.
Notes:	Finds drop in application rates among likely eligible population. Discusses tax policy and federal pressures as possible explanations. Significant articles in part because they were first to identify falling IU/TU and application rates as an issue.
Analysis of application rates?	Yes. Discusses link to legal change.
Analysis of statutory variables?	Denial rates, legal changes.
Identifies regional component?	No.

Table 3.1, cont.

WUNNAVA and HENLEY, 1987

Dependent variable:	Insured/total unemployment ratio.
Method:	OLS, pooled cross-section time series, 50 states, 1966 to 1983, fixed effect specification.
Variables:	Average weekly benefit/average weekly wage, exhaustion rate, percentage manufacturing, log of personal income, union membership.
Significant variables:	No insignificant variables reported.
Notes:	Negative coefficient interpreted as lower unemployment among manufacturing workers. Curious view of exhaustion rate as proxy for disqualification rules.
Analysis of application rates?	No.
Analysis of statutory variables?	Only replacement ratio.
Identifies regional component?	Yes (state level variables).

KANE, 1988

Dependent variables:	New claims/job losers, denial rates,
Method:	Series of examinations of univariate statistics, decompositions, and some OLS regressions.
Variables:	Eligibility requirements, benefit reductions, experience rating, industrial shifts, duration, multiple unemployment spells, multiple earner families.
Notes:	Changes in state programs, industry, and disqualifications are said to be insignificant for explaining decline. Methodology limits ability to identify inter-related factors. Concludes that declining application rates, unrelated to explanatory variables below, explains declining percentage receiving benefits.
Analysis of application rates?	Identified, not explained.
Analysis of statutory variables?	Yes.
Identifies regional component?	No.

Table 3.1, cont.

CORSON and NICHOLSON, 1988

Dependent variables:	UI claims ratio: various measures, primarily use ui claims under state programs divided by total unemployment (IU/TU).
Method:	Time series regression on national sample, quarterly, 1971 to 1986. Pooled time series/cross-section 11 largest states, state dummies, and dummy for 1980-1986. Logit on PSID data for 1980 and 1982.
Variables:	Economic and demographic (unemployment rate, percent female, age distribution, industry distribution, job losers, job leavers, proportion by duration), Federal (taxation of benefits, pension and OASDI offset, extended benefits), State (monetary eligibility, non-monetary eligibility, benefit generosity, continuing eligibility), reserve fraction, old loan fraction, new loan fraction, appeals/determinations.
Significant variables:	Total unemployment rate, minimum earnings, wage replacement, maximum duration, quit denial rate, disqualifying earnings denial, work test denials, EB.
Notes:	Extensive, useful discussion of measurement issues. 1980-1986 dummy is used to compare fixed-effect regressions with and without ui program variables. Change in coefficent on D = 1980-1986 is interpreted as portion of decline in those years attributable to ui program variables.
Analysis of application rates?	Yes.
Analysis of statutory variables?	Yes.
Identifies regional component?	Yes (state level variables).

Table 3.1, cont.

BLANK and CARD, 1989, 1991

Dependent variable(s):	1. "Takeup Rates": Fraction of Insured Unemployed (FIU), unemployed receiving regular state benefits over total unemployed. FEU: Fraction of Unemployed Eligible. FIU/FEU, variable is logged. 2. UI recipiency among eligible individuals (microdata).
Method:	WLS, pooled cross-section time series, 1977-1987, 50 states, dummy for 1985-1987.
Variables:	Wage replacement, coverage, minimum earnings, other eligibility requirements, disqualification rate, unionization, Democratic house, demographics (young, black, female, self-employed), weeks worked, duration of unemployment, industry, year and state effects.
Significant variables:	Wage replacement, coverage, disqualification rates, unionization, weeks worked.
Notes:	In addition to state-level data, authors used microdata from PSID to estimate the percentage of the eligible unemployed receiving benefits. The explanatory variables in this logit model are primarily the same as above for program variables and more extensive demographic variables. Found industry effects insignificant to takeup rates.
Analysis of application rates?	Yes.
Analysis of statutory variables?	Yes.
Identifies regional component?	Yes (state level variables), but not relevant in microdata.

Table 3.1, cont.

VROMAN, 1990

Dependent variable:	Six regressions, including application rates of job losers, leavers, re-entrants; recipiency proportions of same.
Method:	OLS on microdata from a special CPS question series.
Variables:	Unemployment duration, age, race, gender, marital status, education, industry, occupation, union affiliation, region.
Significant variables:	Across all six, recurring significant variables included shorter durations, ages 16-19, ages 20-24, married male, manufacturing, mining, agriculture, all occupation variables, unionization, region.
Notes:	No ui program variables specifically identified (regional proxy). No regression explained more than 22 percent of variance.
Analysis of application rates?	Yes.
Analysis of statutory variables?	No.
Identifies regional component?	Yes (census region).

Table 3.1, cont.

BALDWIN and MC HUGH, 1992

Dependent variable:	Ratio of insured to total unemployment.
Method:	OLS, pooled cross-section time series of 50 states, 1979 to 1990, dummies for years.
Variables:	Average weekly benefits/average weekly wages; high cost multiple; timely first payments; durational disqualifications; maximum benefit earning requirement; minimum benefit earnings; Right-to-Work state; federal tax on benefits; job losers among unemployed; percentage manufacturing; lagged unemployment; percentage of work force black, female, part-time, teenage; unionization rate.
Significant variables:	Right-to-Work, earning requirement, maximum benefit earnings, maximum duration and benefit earnings, durational disqualifications for quitting and work refusal, unionization, manufacturing, job losers, black percentage of work force, benefit duration, previous unemployment.
Notes:	Imperfect measures of unemployment duration, federal taxation, political climate. No accounting for exhaustions or discussion of application rates.
Analysis of application rates?	No.
Analysis of statutory variables?	Yes.
Identifies regional component?	Yes (state level variables).

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TABLE 3.2
CHANGE IN MEANS, 1984-1979, 1991-1987

	UNEMRT	IU/TU	EXRT2	BENTAX2	WKSBEN	MAXWKS	DURAT5	DURAT15	RTW	PCTFEM
1979	0.0552	0.3808	0.7111	0.0000	12.1860	27.0600	0.4997	0.1809	0.4000	0.3925
1984	0.0726	0.3003	1.1334	0.0012	13.4760	26.2000	0.4065	0.2986	0.4000	0.4062
Change	0.0174	(0.0805)	0.4222	0.0012	1.2900	(0.8600)	(0.0933)	0.1177	0.0000	0.0138
1987	0.0626	0.3088	0.9891	0.0183	13.6960	26.1600	0.4465	0.2543	0.4200	0.4214
1991	0.0637	0.3945	0.8628	0.0190	14.2776	26.1200	0.4114	0.2647	0.4200	0.4298
Change	0.0010	0.0857	(0.1264)	0.0007	0.5816	(0.0400)	(0.0351)	0.0104	0.0000	0.0084

	BENWG	APPS/TU	EB	LOSER	MANU	TIMELY	WAIT	BMIN	BMAX	MBEN
1979	0.3714	0.0664	0.3400	0.4135	0.2109	0.8732	0.4800	737.06	4,634.44	8,466.36
1984	0.3675	0.0495	0.5800	0.5046	0.1764	0.9081	0.7800	1,196.60	7,234.78	11,722.36
Change	(0.0039)	(0.0169)	0.2400	0.0911	(0.0346)	0.0349	0.3000	459.54	2,600.34	3,256.00
1987	0.3735	0.0440	0.1400	0.4654	0.1659	0.9152	0.7600	1,351.86	8,269.20	13,374.62
1991	0.3836	0.0541	0.1600	0.5256	0.1570	0.9139	0.7600	1,486.26	9,841.74	15,590.34
Change	0.0101	0.0102	0.0200	0.0602	(0.0089)	(0.0013)	0.0000	134.40	1,572.54	2,215.72

	PCTTEEN	PCTBLK	PCTPRT	UNION	COPE	DQ	DURQ	DURD	DURR	D8389
1979	0.0810	0.0778	0.1726	0.2117	0.5143	0.2974	0.8600	0.6000	0.5400	0.0
1984	0.0584	0.0662	0.1848	0.1700	0.4366	0.2781	0.9400	0.7200	0.7200	1.0
Change	(0.0226)	(0.0116)	0.0123	(0.0417)	(0.0777)	(0.0193)	0.0800	0.1200	0.1800	1.0
1987	0.0572	0.0716	0.1860	0.1557	0.6557	0.2654	0.9400	0.7600	0.7200	1.0
1991	0.0485	0.0748	0.1677	0.1477	0.5317	0.2365	0.9400	0.7600	0.7400	0.0
Change	(0.0087)	0.0032	(0.0183)	(0.0081)	(0.1240)	(0.0289)	0.0000	0.0000	0.0200	-1.0

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TABLE 3.3
VARIABLES AND EXPECTED RELATIONSHIPS

	Insured Unemployment Rate	Application Rates	Long Unemployment
ECONOMIC, DEMOGRAPHIC AND STATE CONTEXT:			
Unemployment Rate	+	+	+
Previous Unemp. Rate			+
Job Losers	+	+	+
Manufacturing	+	+	+
Part-Time	-	-	+
Female	-	-	+
Black	-	+	+
Teenage	-	-	-
Short Duration	-	-	
Long Duration	+	-	
Unionization	+	+	+
COPE Rating	+		
Right-to-Work	-		
FEDERAL CHANGES:			
Benefit Taxation		-	-
Loan Taxation	-		
Extended Benefits	+		+
STATE LAWS:			
Exhaustions	-		-
Weeks of Benefits Received	+	+	+
Maximum Potential Weeks	+	-	+
Wage Replacement		+	+
Timely Payments	-	+	-
Waiting Week		-	-
Minimum Earning	-	-	
Earning for Max. Benefit	-	-	
Earning for Max. Ben., Duration	-	-	
Disqualification rates	-	-	-
Quit Durational	-		-
Refusal Durational	-		-
Misconduct Durational	-		-

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Table 3.4
The Relationship Between Timely Payments and Work Search Requirements
(1985)

	Stringent Search Requirements	Less Difficult Requirements
Above Average Timeliness	ARIZONA IOWA S. CAROLINA	IDAHO MARYLAND
Below Average Timeliness	TEXAS	N. CAROLINA UTAH PENNSYLVANIA WISCONSIN

Source: Corson, Kerachsky, Kisker (1987); O:\123POOL\CTTIME
Employment and Training Administration data for timeliness

Table 3.5

Portion of Unemployed Receiving Benefits

Best and Worst States

1991

5 Best States

Percent Receiving Benefits	State	Wage Replacement	Minimum Earning	Durational Disqualification: Quit?	Misconduct?	Work Refusal?	Union
72.2%	Alaska	29.5%	$1,000				21.6%
60.9%	Hawaii	49.3%	$150	x	x	x	29.0%
57.8%	Nevada	38.8%	$600	x		x	18.3%
56.7%	R. Island	47.9%	$1,700	x	x	x	20.8%
56.2%	Oregon	41.3%	$1,000	x	x	x	19.1%

5 Worst States

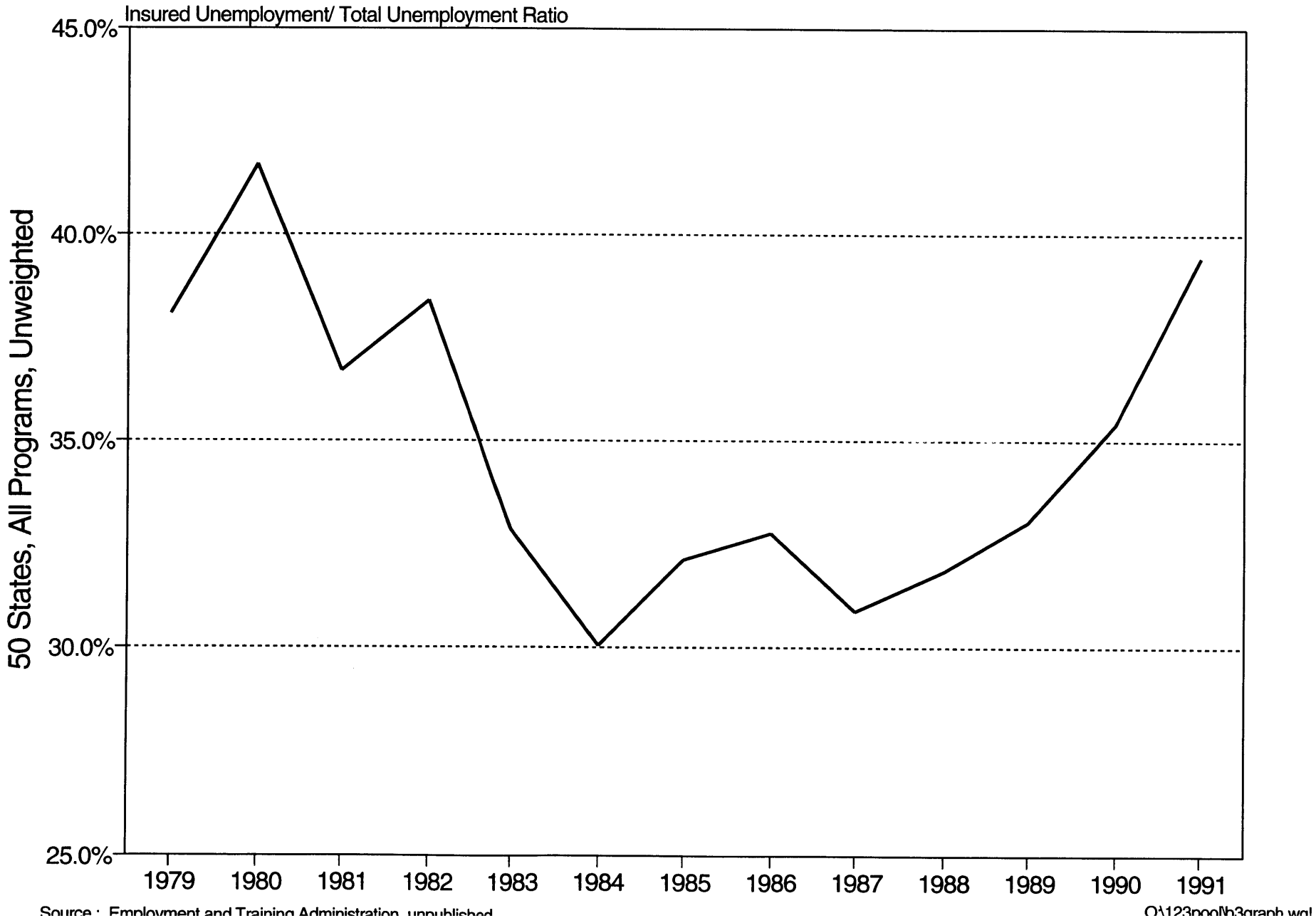
Percent Receiving Benefits	State	Wage Replacement	Minimum Earning	Durational Disqualification: Quit?	Misconduct?	Work Refusal?	Union
25.0%	Louisiana	28.2%	$1,200	x	x	x	7.8%
24.2%	Virginia	36.7%	$3,000	x	x	x	8.7%
24.1%	Texas	38.4%	$1,369	x	x	x	6.5%
19.7%	Oklahoma	39.3%	$3,640	x	x	x	10.2%
19.7%	S. Dakota	39.9%	$1,568	x	x	x	8.9%

x=yes

Source: Employment and Training Administration, UI Financial Handbook and updates
Unionization from Hirsch and MacPherson, unpublished.
Disqualifications from Monthly Labor Review, various annual issues on state UI law.
Minimum earnings from House Ways and Means, 1992 Green Book.

Graph 3.1

Percentage of the Unemployed Receiving Benefits



Source : Employment and Training Administration, unpublished

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TABLE 3.6
REGRESSION RESULTS
DEPENDENT = ln INSURED UNEMPLOYMENT / TOTAL UNEMPLOYMENT
Cross Section, Time Series, 1979-1991, Weighted Least Squares.

	(One)			(Two)		
LEGAL VARIABLES						
Application rates				8.173	(14.8)	**
Durational, Refusing Work				-0.092	(6.1)	**
Disqualification Rates				-0.452	(5.3)	**
Minimum Earnings				-5.48E-05	(5.1)	**
Exhaustion Rate				-0.124	(4.8)	**
Durational, Discharge				0.068	(4.0)	**
COPE				0.076	(3.3)	**
Right to Work State				-0.052	(2.5)	**
Extended Benefits				--		
Earnings for max. ben.				--		
Maximum benefit weeks				--		
Timely payments				--		
Durational, Quitting				--		
ECONOMIC VARIABLES						
Manufacturing				-0.884	(7.5)	**
Job losers				0.990	(7.5)	**
Unemployment rate				-2.276	(3.8)	**
Unionization				0.523	(3.4)	**
Percent Black				0.441	(2.9)	**
Percent teenage				-1.766	(2.1)	**
Percent female				--		
Percent part-time				--		
Long duration				--		
Short duration				--		
DUMMY FOR 1983 TO 1989	-0.196	(10.2)	**	-0.048	(4.0)	**
RUSTBELT	--			--		
BREADBASKET	-0.122	(2.8)	**	--		
SOUTH ATLANTIC	-0.438	(13.3)	**	-0.192	(6.3)	**
COTTONBELT	-0.432	(14.0)	**	-0.079	(2.9)	**
CONSTANT	-0.850	(35.7)	**	-0.967	(3.2)	**
R SQUARED		0.460		0.879		
ADJ. R SQUARED		0.455		0.873		
F =		105.1		152.67		
Sig. F =		0.0000		0.0000		

Notes: -- indicates insignificant variables. They remain in equations as controls.
* indicates significance of .05 <= x <.01
** indicates significance of .01 or greater.
Absolute value of t-statistics in parentheses.

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Weighted by average total unemployment for each state, 1979 to 1991.

TABLE 3.7
SIGNIFICANT VARIABLES AND THEIR EFFECTS ON LN IU/TU
1979 VERSUS 1984

Variable Type	Change In Mean	Estimated Coefficient	Change Due to Variable	% Change From 1979	% of Total Change
EXCLUSIONARY VARIABLES					
Application rates	-0.017	8.173	-0.138	-13.6%	59.8%
Minimum Earnings	459.54	-5.48E-05	-0.025	-2.5%	10.9%
Durational, Refusing Work	0.180	-0.092	-0.017	-1.6%	7.2%
Durational, Discharge	0.120	0.068	0.008	0.8%	-3.5%
Disqualification Rates	-0.019	-0.452	0.009	0.8%	-3.7%
Right to Work	0	-0.052	0.000	0.0%	0.0%
BENEFIT STANDARDS					
Exhaustion Rate	0.422	-0.124	-0.052	-5.2%	22.7%
COPE	-0.078	0.076	-0.006	-0.6%	2.6%
DEMOGRAPHIC and ECONOMIC					
Unemployment rate	0.017	-2.276	-0.039	-3.8%	16.7%
Unionization	-0.042	0.523	-0.022	-2.2%	9.5%
Percent Black	-0.012	0.441	-0.005	-0.5%	2.3%
Manufacturing	-0.035	-0.884	0.031	3.0%	-13.4%
Percent teenage	-0.023	-1.766	0.041	4.0%	-17.6%
Job losers	0.091	0.990	0.090	8.9%	-39.0%
DUMMY FOR 1983 TO 1989	1	-0.048	-0.048	-4.7%	20.8%
Change due to exclusionary variables:			-0.163	-16.1%	70.6%
Change due to benefit standards:			-0.058	-5.7%	25.2%
Change due to economic variables:			0.096	9.4%	-41.4%
Sum of Significant Variables:			-0.174	-17.1%	75.2%
Actual Change:			-0.231	-22.8%	
Change Unaccounted For:			-0.057	-5.6%	

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TABLE 3.8
SIGNIFICANT VARIABLES AND THEIR EFFECTS ON LN IU/TU
1987 VERSUS 1991

Variable Type	Change In Mean	Estimated Coefficient	Change Due to Variable	% Change From 1979	% of Total Change
EXCLUSIONARY VARIABLES					
Application rates	0.010	8.173	0.082	6.7%	32.4%
Disqualification Rates	-0.029	-0.452	0.013	1.1%	5.2%
Right to Work	0	-0.052	0.000	0.0%	0.0%
Durational, Discharge	0	0.068	0.000	0.0%	0.0%
Durational, Refusing Work	0.020	-0.092	-0.002	-0.1%	-0.7%
Minimum Earnings	134.40	-5.48E-05	-0.007	-0.6%	-2.9%
BENEFIT STANDARDS					
Exhaustion Rate	-0.126	-0.124	0.016	1.3%	6.2%
COPE	-0.124	0.076	-0.009	-0.8%	-3.7%
DEMOGRAPHIC and ECONOMIC					
Job losers	0.060	0.990	0.059	4.8%	23.6%
Percent teenage	-0.009	-1.766	0.016	1.3%	6.3%
Manufacturing	-0.009	-0.884	0.008	0.6%	3.2%
Percent Black	0.003	0.441	0.001	0.1%	0.5%
Unemployment rate	0.001	-2.276	-0.002	-0.2%	-0.9%
Unionization	-0.008	0.523	-0.004	-0.3%	-1.7%
DUMMY FOR 1983 TO 1989	-1	-0.048	0.048	3.9%	19.0%
Change due to exclusionary variables:			0.086	7.0%	34.0%
Change due to benefit standards:			0.006	0.5%	2.5%
Change due to economic variables:			0.078	6.4%	31.0%
Sum of Significant Variables:			0.218	17.7%	86.5%
Actual Change:			0.252	20.5%	
Change Unaccounted For:			0.034	2.8%	

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Graph 3.2

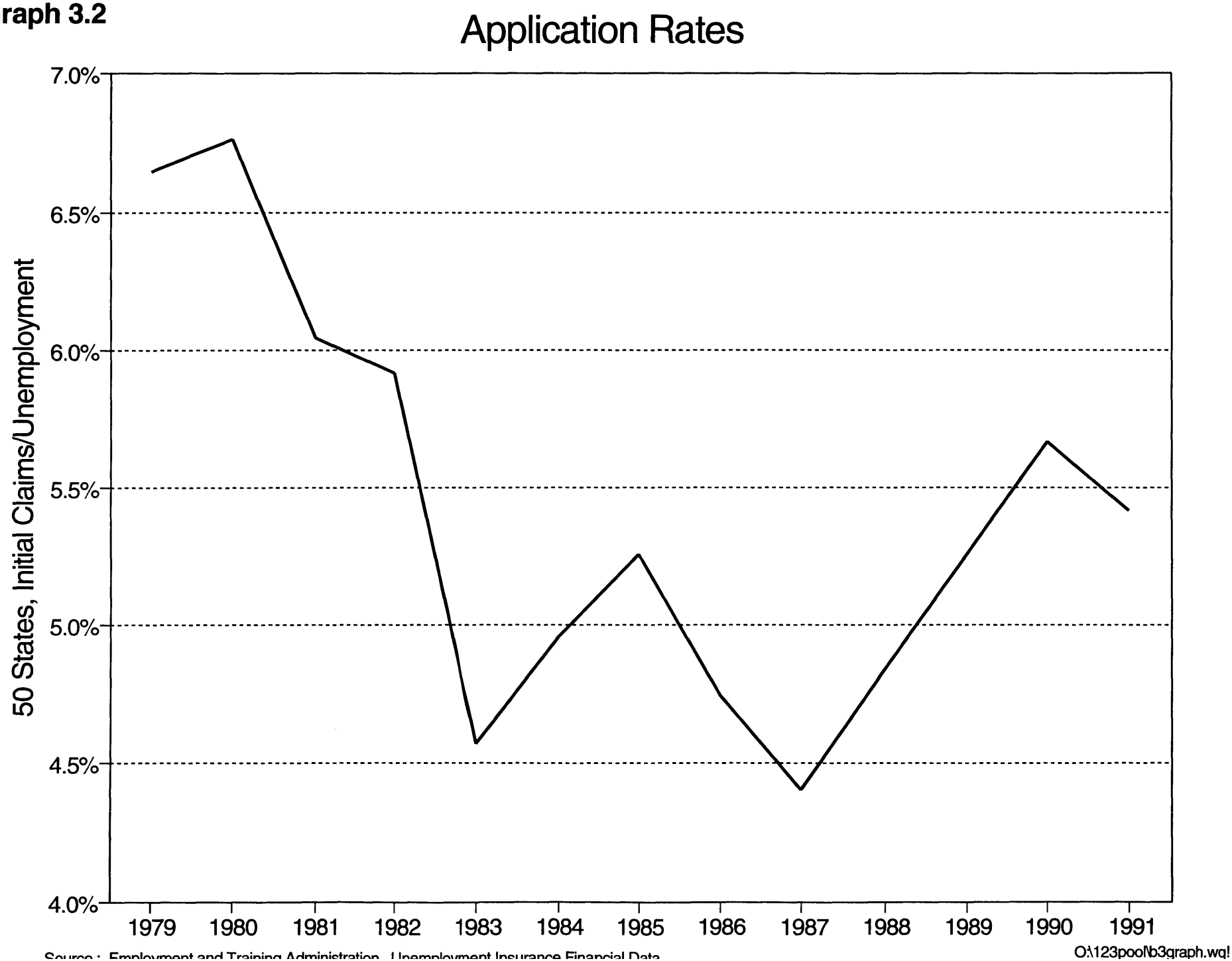
Application Rates
7.0%
6.5%
6.0%
5.5%
5.0%
4.5%
4.0%
50 States, Initial Claims/Unemployment
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
Source : Employment and Training Administration, Unemployment Insurance Financial Data
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TABLE 3.9
REGRESSION RESULTS
DEPENDENT = ln APPLICATIONS / TOTAL UNEMPLOYMENT
Cross Section, Time Series, 1979-1991, Weighted Least Squares

	(One)			(Two)		
LEGAL VARIABLES						
Wage Replacement Rate				1.018	(4.1)	**
Waiting Week				-0.081	(2.9)	**
Benefit Taxation				-4.313	(2.7)	**
Durational, Discharge				-0.077	(2.3)	*
Earnings for Max Ben, Max Wks				-7.36E-06	(2.1)	*
Durational, Quitting				0.113	(1.9)	*
Timely payments				--		
COPE				--		
Minimum Earnings				--		
Earnings for max. ben.				--		
Benefit Weeks Received				--		
Right to Work State				--		
Durational, Refusing Work				--		
Disqualification Rates				--		
ECONOMIC AND DEMOGRAPHIC VARIABLES						
Manufacturing				2.831	(14.7)	**
Job losers				2.054	(8.6)	**
Unemployment rate				-6.882	(6.3)	**
Long duration				-1.291	(4.6)	**
Unionization				1.129	(3.7)	**
Percent Black				1.499	(5.4)	**
Percent teenage				-4.020	(2.5)	**
Percent part-time				2.417	(2.7)	**
Percent female				--		
Short duration				--		
DUMMY FOR 1983 TO 1989	-0.238	(9.4)	**	-0.125	(5.6)	**
RUSTBELT	-0.092	(2.7)	**	-0.459	(11.0)	**
BREADBASKET	-0.118	(2.1)	**	-0.287	(5.1)	**
SOUTH ATLANTIC	-0.227	(5.2)	**	-0.352	(6.3)	**
COTTONBELT	-0.362	(8.9)	**	-0.372	(7.7)	**
CONSTANT	-2.743	(87.5)	**	-4.159	(7.2)	**
R SQUARED		0.229		0.656		
ADJ. R SQUARED		0.222		0.639		
F =		36.61		38.72		
Sig. F =		0.0000		0.0000		

Notes: -- indicates insignificant variables. They remain in the equation as controls.
* indicates significance of .05 <= x <.01
** indicates significance of .01 or greater.
Absolute value of t-statistics in parentheses.

Observations weighted by each state's average total unemployment from 1979 to 1991.

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TABLE 3.10
SIGNIFICANT VARIABLES AND THEIR EFFECTS ON LN APPS/TU
1979 VERSUS 1984

Variable Type	Change In Mean	Estimated Coefficient	Change Due to Variable	% Change From 1979	% of Total Change
EXCLUSIONARY VARIABLES					
Durational, Quitting	0.080	0.113	0.009	0.3%	-3.0%
Durational, Discharge	0.120	-0.077	-0.009	-0.3%	3.1%
Earnings: Max.ben., Max.wks.	3256.00	-7.36E-06	-0.024	-0.9%	8.0%
Waiting Week	0.300	-0.081	-0.024	-0.9%	8.1%
BENEFIT STANDARDS					
Benefit Taxation	0.001	-4.313	-0.004	-0.2%	1.4%
Wage Replacement Rate	-0.004	1.018	-0.004	-0.1%	1.4%
DEMOGRAPHICS					
Percent teenage	-0.023	-4.020	0.092	3.4%	-30.8%
Percent Black	-0.012	1.499	-0.018	-0.7%	6.0%
ECONOMIC CHANGE					
Job losers	0.091	2.054	0.187	6.8%	-62.3%
Percent part-time	0.012	2.417	0.029	1.1%	-9.7%
Unionization	-0.042	1.129	-0.047	-1.7%	15.8%
Manufacturing	-0.035	2.831	-0.099	-3.6%	33.0%
Unemployment rate	0.017	-6.882	-0.117	-4.3%	39.0%
Long duration	0.118	-1.291	-0.152	-5.5%	50.8%
DUMMY FOR 1983 TO 1989	1	-0.125	-0.125	-4.5%	41.7%
Change due to exclusionary variables:			-0.024	-0.9%	8.1%
Change due to benefit standards:			-0.008	-0.3%	2.8%
Change due to demographics:			0.074	2.7%	-24.8%
Change due to economic variables:			-0.200	-7.3%	66.6%
Sum of Significant Variables:			-0.283	-10.3%	94.3%
Actual Change:			-0.300	-10.9%	
Change Unaccounted For:			-0.017	-0.6%	

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TABLE 3.11
SIGNIFICANT VARIABLES AND THEIR EFFECTS ON LN APPS/TU
1987 VERSUS 1991

Variable Type	Change In Mean	Estimated Coefficient	Change Due to Variable	% Change From 1979	% of Total Change
EXCLUSIONARY VARIABLES					
Earnings: Max.ben., Max.wks.	2215.72	-7.36E-06	-0.016	-0.5%	-7.3%
Durational, Discharge	0.000	-0.077	0.000	0.0%	0.0%
Durational, Quitting	0.000	0.113	0.000	0.0%	0.0%
Waiting Week	0.000	-0.081	0.000	0.0%	0.0%
BENEFIT STANDARDS					
Wage Replacement Rate	0.010	1.018	0.010	0.3%	4.5%
Benefit Taxation	0.001	-4.313	-0.003	-0.1%	-1.3%
DEMOGRAPHICS					
Percent teenage	-0.009	-4.020	0.036	1.1%	16.2%
Percent Black	0.003	1.499	0.004	0.1%	2.0%
ECONOMIC CHANGE					
Job losers	0.060	2.054	0.123	3.9%	55.0%
Unemployment rate	0.001	-6.882	-0.007	-0.2%	-3.1%
Unionization	-0.008	1.129	-0.009	-0.3%	-4.0%
Long duration	0.010	-1.291	-0.013	-0.4%	-5.8%
Manufacturing	-0.009	2.831	-0.025	-0.8%	-11.4%
Percent part-time	-0.018	2.417	-0.044	-1.4%	-19.4%
DUMMY FOR 1983 TO 1989	-1	-0.125	0.125	3.9%	55.8%
Change due to exclusionary variables:			-0.016	-0.5%	-7.3%
Change due to benefit standards:			0.007	0.2%	3.2%
Change due to demographics:			0.041	1.3%	18.2%
Change due to economic variables:			0.025	0.8%	11.4%
Sum of Significant Variables:			0.182	5.7%	81.2%
Actual Change:			0.224	7.0%	
Change Unaccounted For:			0.042	1.3%	

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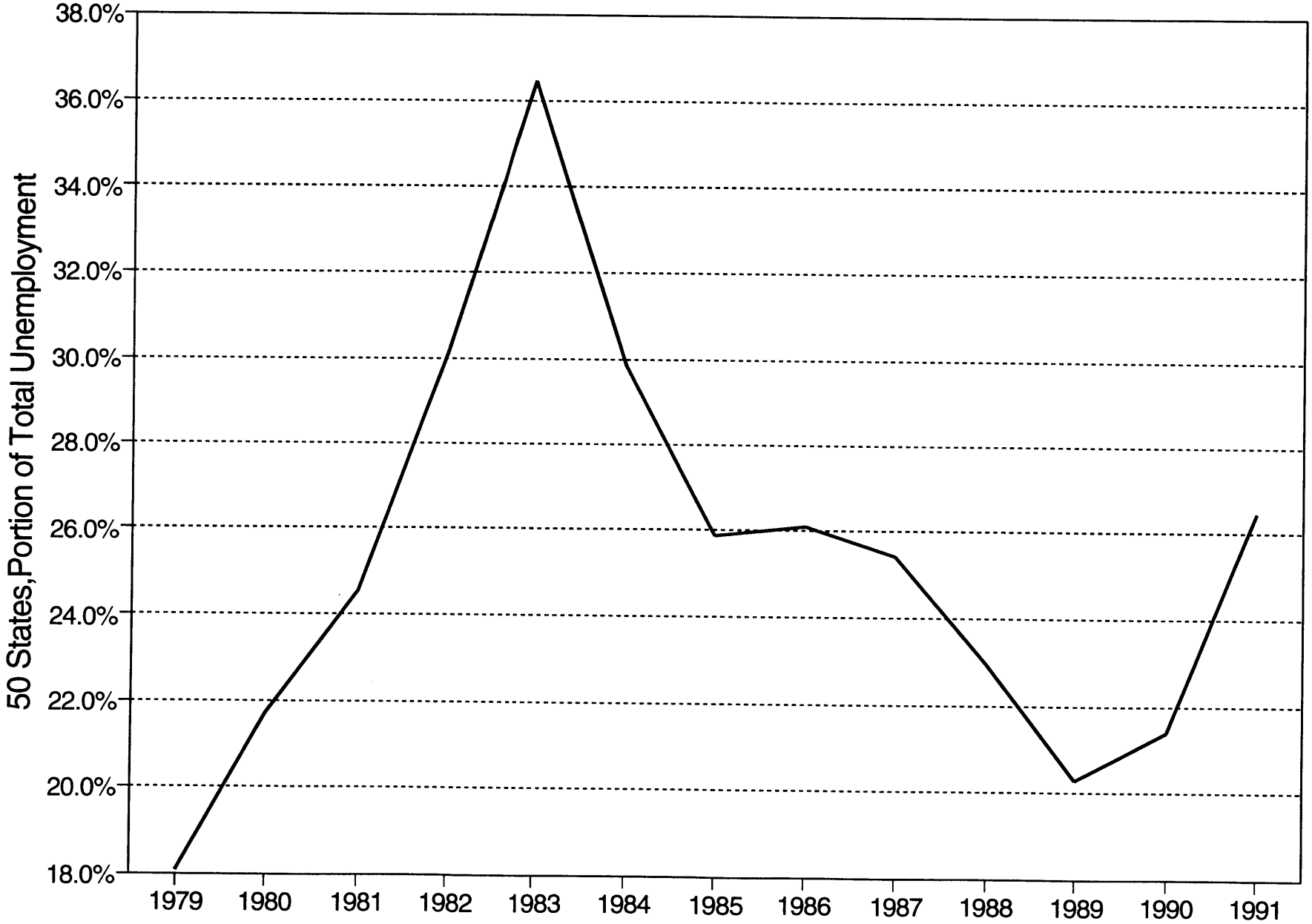
Graph 3.3

Long Term Unemployment (15 Weeks and Longer)



Source : Bureau of Labor Statistics, Geographic Profile of Employment and Unemployment

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TABLE 3.12
REGRESSION RESULTS
DEPENDENT = PERCENTAGE UNEMPLOYED 15 WEEKS OR LONGER
Cross Section, Time Series, 1979-1991, Weighted Least Squares

LEGAL VARIABLES			
Insured/Total Unemployment Rate	-0.125	(4.7)	**
Durational, Quitting	-0.025	(3.0)	**
Exhaustion Rate	-0.016	(2.7)	**
Benefit Taxation	--		
Waiting Week	--		
COPE	--		
Maximum benefit weeks	--		
Wage Replacement Rate	--		
Durational, Discharge	--		
Durational, Refusing Work	--		
Right to Work State	--		
Disqualification Rates	--		
ECONOMIC AND DEMOGRAPHIC VARIABLES			
Unemployment rate	1.673	(10.6)	**
Job losers	0.322	(9.2)	**
Percent teenage	-1.345	(5.7)	**
Percent part-time	0.431	(3.4)	**
Unionization	0.097	(2.1)	*
Manufacturing	--		
Percent female	--		
Percent Black	--		
DUMMY FOR 1983 TO 1989	0.023	(7.2)	**
RUSTBELT	0.051	(7.9)	**
BREADBASKET	0.061	(7.6)	**
SOUTH ATLANTIC	0.032	(3.8)	**
COTTONBELT	--		
CONSTANT	--		
R SQUARED	0.839		
ADJ. R SQUARED	0.832		
F =	123.69		
Sig. F =	0.0000		

Notes: -- indicates insignificant variables. They remain in equation as controls.
* indicates significance of .05 <= x <.01
** indicates significance of .01 or greater.
Absolute value of t-statistics in parentheses.

Weighted by average total unemployment for each state, 1979 to 1991.

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TABLE 3.13
SIGNIFICANT VARIABLES AND THEIR EFFECTS ON LONG UNEMPLOYMENT DURATIONS
1979 VERSUS 1984

	Change In Mean	Estimated Coefficient	Change Due to Variable	% Change From 1979	% of Total Change
LEGAL VARIABLES					
IU/ TU Ratio	-0.081	-0.125	0.010	5.6%	8.6%
Durational, Quitting	0.080	-0.025	-0.002	-1.1%	-1.7%
Exhaustion Rate	0.422	-0.016	-0.007	-3.7%	-5.7%
ECONOMIC VARIABLES					
Percent teenage	-0.023	-1.345	0.031	17.1%	26.2%
Job losers	0.091	0.322	0.029	16.2%	24.8%
Unemployment rate	0.017	1.673	0.028	15.7%	24.1%
Percent part-time	0.012	0.431	0.005	2.9%	4.4%
Unionization	-0.042	0.097	-0.004	-2.3%	-3.5%
DUMMY FOR 1983 TO 1989	1	0.023	0.023	12.7%	19.5%
Change due to legal variables:			0.001	0.8%	1.2%
Change due to economic variables:			0.090	49.6%	76.1%
Sum of Significant Variables:			0.114	63.1%	96.7%
Actual Change:			0.118	65.2%	
Change Unaccounted For:			0.004	-2.1%	

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Chapter Four
Unemployment Insurance and 21st Century Labor Markets

The federal/state unemployment insurance system was constructed on the basis of specific economic assumptions and with built in tension around three goals: income support for the unemployed, counter-cyclical impact, and incentives to reduce layoffs. In the 1980s, debate around these conflicting goals was largely set aside in a struggle framed by "competitiveness" and "solvency". Despite recommendations of a national commission on UI reform, acting under interstate competition and stretched resources, states used their vast prerogatives to exclude the majority of unemployed workers and to reduce benefit levels for those in the system.

Historically, the federal government intervenes in a predictably short-sighted way when such crises arise, enacting emergency benefit extensions but allowing states to retain control over all other aspects of the UI system.[65] Indeed, as this was written, the historic pattern is repeating itself with renewed emergency benefit extensions and vague hints of larger reform. Now we must ask: Can we go back to the high counter-cyclical punch of previous eras, through federal standards, or should we choose to do more? What would it take to make the UI system more in tune with a modern economy? And what would it cost?

65 See Chapter One.

New Principles for a New Reality.

Having seen that the underlying assumptions of the federal/state unemployment insurance system have been left behind by a changing economy and that state and federal actors have responded in counter productive ways, what new approaches would better match the program to the economic context in which it operates?

Lengthening unemployment durations, high unemployment among older workers, a shifting industrial and occupational mix, more open trade relations, vast cuts in the defense budget -- this labor market "turbulence" (Doeringer, 1991) calls for direct attention through the only existing income support program intended for all unemployed workers attached to the labor force. Instead, during the 1980s the unemployment insurance system shifted heavily toward encouragement of rapid re-employment at a time when rapid re-employment was all but impossible for most unemployed workers. Both state and federal activity went to great lengths to exclude claimants from benefits, to reduce disincentives to work by reducing benefit levels, and to degrade the concept of "suitable work". All these trends move in the wrong direction for a modern economy. If the standard of living in the United States is going to improve, the nation needs a range of programs that encourage the growth of high wage jobs on the demand side and facilitate the pursuit of such jobs through training and career planning on the labor supply side. Unemployment insurance

should be the floor under such a structure for rebuilding competitiveness, one component of a strategy to reverse the effects of "secular decline in the demand for less skilled workers" (Topel, 1993).

The range of state regulations excluding most unemployed workers from receiving benefits requires immediate attention. Complete denial of benefits is the most apparent inequity in the system, but reform must also address the failure of UI with respect to those who are exhausting their benefits during prolonged unemployment spells. In 1990, before the recession took hold and before the emergency benefit extension, 2.3 million claimants exhausted their state benefits. Benefit durations must be extended to match this new reality, but programs should also be in place to reduce the causes of exhaustions and earnings loss.

A look at the characteristics of UI exhaustees versus other claimants provides clues about how to meet their special needs through programs linked to UI. Table 4.1 compares the population of benefit exhaustees to other claimants.

[Table 4.1]

Workers with less than high school education and two years or less previous job tenure are over-represented among benefit exhaustees. Perhaps surprisingly, retail trade and

services industry workers are over-represented among exhaustees compared to non-exhaustees. This could have several meanings. Their benefits could be expiring because they had low prior earnings. It is also possible that these industries are largely populated with workers who face labor market disadvantages after they become unemployed. Occupationally, managers and administrative support workers are most likely to exhaust benefits. Administrative support positions are heavily female-dominated, so high exhaustion rates for those occupations explain some of the decline in UI beneficiary rates among women.

The last four lines of Table 4.1 are most suggestive. More than half (53.2 percent) of all benefit exhaustees were from households earning $20,000 or less before layoff. More than one in five benefit exhaustees came from a household with income under $10,000. This suggests the need to link unemployment insurance to JTPA Title II which serves the "economically disadvantaged". Finally, workers who are victims of plant closings or who are dislocated workers (plant closing victims with at least three years seniority) are, respectively, 7.1 percentage points and an astonishing 11.7 percentage points more likely to be exhaustees than they are to be non-exhausting claimants. This suggests that Title III, like Title II, should be more closely integrated with unemployment insurance.

Although production workers are not disproportionately represented among exhaustees relative to other claimants, we

do know that exhaustees from manufacturing and from production occupations are more likely than other groups to change industries and occupations. Table 4.2 summarizes the pre-unemployment and post-unemployment breakdown of industry and occupation populations among exhaustees.

[Table 4.2]

Post-exhaustion employment trends show that manufacturing workers, machine operators, and precision production workers are most likely to leave their previous industry or occupation after exhausting benefits.

Data from the Massachusetts Reemployment Assistance Benefits (RAB) unemployment insurance program (now known as "Section 30" (McClory, 1993)) suggest that a focus on plant closing victims will aid many of the groups associated with declining UI recipiency rates and facing labor market difficulties. The RAB program extended benefits for victims of plant closings in Massachusetts. RAB claimants had the following characteristics: more than half of the RAB claimants were 45 years old or older compared to one in three in the overall state claimant population; 55 percent of the RAB claimants were women compared to 43 percent of the UI claimant population; almost half the RAB claimants had not completed high school though only one in four had not in the state labor force. Again, the evidence suggests

that there are distinct claimant populations who face definable labor market difficulties and for whom unemployment insurance can be important support during a period of transition.

To meet the demands of these claimants and of the new economic situation, unemployment insurance should be embedded in a wide range of labor market policies for a diverse claimant population facing a changing economy. It should aid the transition from unemployment to new careers and higher skill occupations, not just support the unemployed as they struggle without guidance to find any job before their benefits expire.

A vision based on these goals takes the program in a profoundly different direction. Table 4.3 sketches the different understandings of traditional reformers, supporters of active labor market policy, and current trends.

[Table 4.3]

As this comparison indicates, the core principle of an activist reform program -- that unemployment insurance is an income support program for periods of transition -- has far reaching implications.

The current program excludes too many claimants, pays too little in benefits for too short a time, and makes

insufficient demands on claimants in part because it offers no support for claimants to achieve more desirable labor market outcomes. In response, the reforms outlined below channel the program in two important directions: (1) longer potential support, particularly for claimants with labor market disadvantages, and (2) new demands on claimants relating to job search combined with strategies and programs to meet those new demands. Rapid re-employment remains a goal, but it is tempered by awareness that quick adjustments are not always possible and that a claimant's standard of living in new employment should be maintained or improved whenever possible.

This is not the place to advance a public works program or stimulus package to promote full employment, though such programs may be warranted. Rather, the focus here is on the unemployment insurance program and how this one policy tool can better facilitate programs for labor market transitions. The point of departure is different from two current trends in social insurance.

The proposal advanced here does not suggest, as some have recently, that the nation should raid the already-strapped state trust funds to pay for training (Osterman and Batt, 1993). The current fiscal crisis of the states has spawned proposals to use UI trust funds for everything from training to health insurance. Proposals along these lines are particularly distressing given the evidence of how trust funds have been "protected" from claimants: having kept the

unemployed from drawing down reserves, we can now divert these funds to other uses. Moreover, the funds themselves are not so lush that they can be indiscriminately called upon for new duties. At the end of 1992, four states had outstanding loans to their trust funds. Connecticut owed $437 per covered employee. Eleven states had less than six months benefits in their funds. It is noteworthy, in this regard, that California, which established a training tax and reduced UI taxes by a corresponding amount, had a high cost multiple of only .42 at the end of 1992 and ranked 37th for trust fund reserves though they ranked first for benefits paid out.

Nor does this proposal merely add job search assistance or training requirements to the duties of Employment Service workers. The reform proposed here strengthens the primary role of unemployment insurance as an income support program while making equitable, desirable employment transitions more likely. Indeed, it treats UI reform as a precondition for effective transition assistance during potentially lengthy career change efforts.

Unemployment Insurance Innovations: Benefit Side.

The point of departure for this discussion is a plan to address the needs of claimants experiencing reemployment difficulties, the group most clearly failed by current programs. The discussion of programs to combat lengthy unemployment spells is followed by discussion of plans for

brief spells, disqualifications and continued eligibility, and benefit levels. The next section will discuss financing, including a range of possible compromises and cost estimates for a total package.

A. RESPONSES TO LONG SPELLS. Currently, the emergency benefit extension provides 20 additional weeks of benefits in all states and 26 weeks of benefits in six hard hit states through October 2, 1993. Although this income support is crucial to claimants who cannot find new employment, it is clearly an incomplete response to a bigger, underlying problem. Emergency benefit extensions also play into the arguments of employer representatives that UI is becoming a "welfare" program, not a temporary insurance system. These employer arguments ignore the fact that lengthy unemployment spells are unavoidable for many claimants given insufficient demand for labor, generally, or for claimants' current skills. Neither the advocates of emergency extensions nor those who resist them are addressing the issue of overcoming those labor market difficulties that contribute to lengthy spells.

There are several experiments currently underway for coping with labor market transformations: "profiling", search assistance, training, bonuses, and supplemental benefit durations. The Department of Labor is currently pursuing "profiling" (discussed below) and targeted search assistance, but not pressing for more adequate benefit

levels or durations to ease difficult transitions. The plan presented here integrates profiling into a broader framework of income and transition assistance, making assistance available to all claimants not anticipating recall. By providing search assistance and developing search agreements between claimants and case workers, the supposed disincentive effects of long potential benefit durations are addressed.

Longer maximum benefit durations and links to search assistance and career counselling make intuitive sense and have empirical justification. Evidence suggests that more ample benefits (Holen, 1977; Ehrenberg and Oaxaca, 1976; Burgess and Kingston, 1976) or benefit durations (Burdett, 1979) can improve re-employment earnings and/or reduce unemployment durations (Gottschalk, 1988).[66] Much of the re-employment earnings improvement can be attributed to increased search effort (Tannery, 1983) or search quality (Kahn and Low, 1988). It should also be noted that findings that dispute the link between benefit levels or durations and improved post-employment earnings (e.g., Classen, 1977) do not model the effect of linking search tests and search assistance to heightened benefit levels.

Some states have taken the lead in developing programs to link unemployment benefits to active labor market responses. Two types of programs are worth highlighting.

66 Welch (1977) and others note that all such studies assume a partial equilibrium framework and can only provide partial conclusions.

Five states (California, Iowa, Maine, Massachusetts, and New York) have supplemental benefits programs to improve the income maintenance function of unemployment insurance during training. Eleven states (Florida, Georgia, Maine, Massachusetts, Nebraska, Nevada, Ohio, Tennessee, Vermont, West Virginia, and Wisconsin) link unemployment insurance to JTPA programs. These linkages range from interagency cooperation (Florida) to supplemental benefits, training advice, and customized training programs for dislocated workers (Maine).

Table 4.4 summarizes the program characteristics of five state-level supplemental income maintenance programs.

[Table 4.4]

Some points should be noted about these state efforts. First, some of the programs allow substantial extensions of benefits under state programs. Most offer up to 52 total weeks benefits. Second, the cost of the programs is quite modest and the funding mechanisms are similarly unobtrusive. Third, most of the programs are limited to dislocated workers. Finally, most require training as a condition of extended benefit recipiency.

These models can be taken a step further by changing one key factor. Some of them require claimants to serve lengthy unemployment spells as the primary test of a labor market disability before a claimant can enter the reemployment benefits program. This requirement can lead to benefit exhaustions and futile search efforts because claimants must use up a specified number of weeks benefits before they enter what could be a lengthy training program or guided job search strategy. California, in contrast, excludes claimants who have been receiving benefits for more than 16 weeks. Massachusetts also excludes applications after 15 weeks (McClory, 1993). The program described below permits all claimants to have access to reemployment services, but changes the nature and funding of those services as spells lengthen. It also broadens the range of signals that trigger expanded service opportunities during profiling.

The few states that offered benefit extensions to selected groups of workers were attempting to fill a void left by federal inaction or hostility. At its best, the pre-1982 EB program merely provided a few additional weeks of income support during periods of exceptionally high unemployment in particular states. The current EB system is virtually non-existent (see Chapter Two). As proposed below, EB becomes an essential income support during training for employment transitions, but standards must also ensure that benefit levels are sufficient and claimants are

not unduly excluded from state programs. As a training support, as state experience suggests, EB cannot be allowed to trigger on and off unexpectedly; claimants should know in advance that they will have income during their training program.

A 1990 Congressional Budget Office report on Extended Benefits noted that

> "another approach consistent with this perspective of UI as social insurance would allow all unemployed workers exhausting their regular UI benefits to receive extended benefits, but would link receipt of extended benefits to the willingness of recipients to participate in work-related programs, such as job clubs and training" (Congressional Budget Office, 1990).

The program proposed below extends that suggestion to all UI programs, state programs as well as EB. It makes qualitatively new demands on claimants instead of increasing the quantity of current demands.

To provide income support during potentially lengthy transitions, EB should be available for 26 weeks and, to facilitate training participation, should not be triggered by state unemployment levels. If this level of protection proves too expensive to legislate, 26 weeks should be available to high-risk claimants (dislocated workers, Group One below) with a 26 week extension available to all other claimants based on a revised EB trigger (6.5 percent state or national TUR). Triggered EB, at least, is essential given the probability that pre-claim screening may not identify all claimants who will face labor market difficulties.

Another innovation that should be part of a renewed UI system is employment bonuses. Notable bonus experiments have taken place in New Jersey (Corson, Decker, Dunstan, and Gordon, 1989; Anderson, Corson, and Decker, 1990), Washington (Spiegelman, O'Leary, and Kline, 1992), Illinois (Spiegelman and Woodbury, 1987a, 1987b), and Pennsylvania (Corson, Decker, Dunstan, and Kerachsky, 1991). Some states have paid bonuses directly to claimants, some to employers. The literature on the financial effects of these efforts is uniformly positive: the provision of bonuses for reemployment increases search effort, reduces benefit durations, and saves trust fund reserves.[67] In New Jersey, the bonus at two weeks was quite high, averaging $1,644 (Corson, Decker, Dunstan, and Gordon, 1989) whereas the Illinois bonus was a modest $500, but both reduced net cost. A follow-up to the New Jersey experiment estimated that claimants who received search assistance and a bonus realized a net gain of $427, comprised of a $591 increase in earnings, a $124 increase in fringes, and a loss of $279 in UI benefits (Corson, Decker, Dunstan, and Gordon, 1991). It is not clear, however, how robust the findings are with respect to bonus levels and underlying economic conditions.

67 The report on the Washington experiment is positive but more cautious than the rest. It makes particular reference to different effects among claimant populations and suggests that benefit/cost ratios are highest for workers over 45 years of age (Spiegelman, O'Leary, and Kline, 1992). The benefit cost ratio in Illinois would have fallen by almost 50 percent if take-up rates for the bonus had been 100 percent instead of 14 percent (Woodbury and Spiegelman, 1987).

In general, bonus plans must operate in a context that includes significant claimant protections. In most experiments, bonus programs should link job search assistance to bonuses so that claimants make informed, rather than just rapid, reemployment decisions. Bonuses should encourage work search effort, but not the securing of sub-standard work in pursuit of a lump sum payment. If suitable work is stringently defined (as described below) and higher benefit levels reduce the pressure to take any minimum wage job, bonus plans will have positive effects. To avoid paying bonuses to those who would be reemployed quickly without intervention, bonuses should not be paid to claimants expecting recall.

Some subsidiary issues on the benefit side should be raised before moving on. As the National Commission recommended, partial benefits should be available for those with low hours of employment. Similarly, if claimants receive income from a part-time job during a training program they should be allowed to keep the additional income with no reduction in benefits. This serves several purposes. It supplements income during training so that claimants can more easily complete their course of study. It encourages time management and labor force attachment. Finally, it provides a signal to future employers that the claimant is ambitious. These positive results outweigh the monitoring cost and punitive costs of disqualifying income.

B. SHORT UNEMPLOYMENT SPELLS. Most claimants who anticipate recall are, in fact, recalled (Corson and Dynarski, 1990). The lengthy potential benefit durations proposed here would actually be used by only a portion of all unemployed workers. Many state programs dispense with job search requirements for claimants on layoff expecting recall. Even so, in the program proposed here, these claimants are assigned a Counsellor to monitor whether recall actually occurs. This is to ensure that career alternatives are explored as soon as possible in case layoffs become permanent.

There are positive responses to short term layoffs that can be integrated into the program. "Worksharing" or "short time compensation" (STC) schemes have convincing advocates (Vroman, 1993; Abraham and Houseman, 1993; Wong, 1993; Selfert, 1993), though some argue that STC schemes lead to underemployment in Europe (Burdett and Wright, 1989). The potential for work sharing arrangements to boost employment levels and reduce work time have been too little explored in the United States, though the internationally exceptional amount of worktime spent in this country makes the plans appealing (Schor, 1992). Such plans are well integrated into European unemployment insurance schemes (Abraham and Houseman, 1993; Selfert, 1993).

Seventeen states currently have worksharing programs.[68] Typically, these programs pay proportionally reduced

68 Connecticut added a program in 1992.

unemployment insurance benefits to workers facing reduced work hours as an alternative to layoffs. Table 4.5 summarizes state provisions in 1992.

[Table 4.5]

To ensure equity and effectiveness, short time compensation programs should be organized around six principles. First, they should have significant employee protections such as benefit continuation and mutual agreement of labor and management before a program begins. Second, benefit levels will need to be increased so that income losses are not extreme under STC. Third, if the program is linked to training (so that short time is compensated while a training program is pursued), the training program must be accredited in some way and monitored. Fourth, they should run up to 52 weeks, but beyond that the firm needs more significant intervention. Fifth, because short time compensation is often just a stay of execution for a firm, STC programs should be integrated into industrial extension services.[69] Where firms expect substantial layoffs, it may be appropriate to make extension service intervention a precondition for an STC agreement. Finally, experience

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69 European experience suggests that STC has more structural than cyclical character (Selfert, 1993; Gray, 1993) and also has a seasonal component that was not designed into the program (Vroman, 1993).

rating systems will need to be modified if the program becomes extensive. Some states imposed additional taxes in the early days of their STC programs, but found the additional revenue was not needed. That will change if the program expands.

C. BENEFIT LEVELS. As Chapter One showed, there is ample historic precedent for setting benefit standards of a 50 percent replacement rate for most claimants, up to a maximum of 2/3 of the state average weekly wage. This was the call of all presidents from Truman through Nixon. Some states (Nevada, New Mexico) currently use 50 percent of the average weekly wage as their maximum benefit level. Federal requirements could set a 50 percent wage replacement rate and leave states free to determine their own mix of benefit dispersions, i.e., either raising their maximums or compressing the distribution around 50 percent. As the National Commission recommended, this standard could be phased in over four years.

In the past, this level of benefits, which all states provided in the early days of UI, was defended on the basis of claimants rights and counter-cyclical impact. The case remains strong, but there are additional reasons to support higher benefit levels. Under an active labor market policy, benefit levels of at least 50 percent are also seen as necessary to sustain families during employment transitions, particularly during training periods. Claimants need

substantial, predictable income during training periods so they can concentrate on their training and job search efforts without experiencing financial difficulties. In the New York experiment with supplemental training benefits, 96 percent of the surveyed recipients who finished training said that supplemental benefits "made a difference" in their ability to undergo training. Of those who did not complete training, 48 percent dropped out for financial reasons when their benefits stopped (New York Department of Labor, 1990). A 50 percent wage replacement is a reasonable compromise between the need for adequate support and any supposed disincentive to work.

Taxation of benefits effectively reduces benefit levels, *ex post*. There are three problems with the current taxation of benefits. First, benefit taxation reduces benefit levels when they are already only about a third of prior earnings for most claimants. Second, it is quite regressive. Taxes as a percentage of total benefits are actually higher for those earning $20,000 to $25,000 (18.3 percent) than they are for those earning $40,000 to $50,000 (15.8 percent) (House Ways and Means Committee, 1992). If benefits are to be taxed at all, they should be taxed only for upper income recipients. Third, taxes are removed at year end, not at the time of payment. An unemployed claimant receives benefits for several months, struggling to make ends meet, and suffers a substantial income drop at tax time. At the very least, claimants should have the option

of tax withdrawal on an ongoing basis to facilitate budgeting. Another option would be to dedicate the revenue from taxing benefits to a pool for unemployment-related programs.

D. UNIFORM MAXIMUM POTENTIAL DURATION OF BENEFITS. As noted, most claimants do not currently use their maximum benefit allowances. In 1983, when the national average for benefit durations peaked, the average duration of benefits received was 17.5 weeks. Yet the average for benefit exhaustees was 23.6 weeks. The presence of long potential benefit durations is less of a draw to remain unemployed than most economists assume. Instead, the experience of unemployment is polarized between those facing brief spells and those facing significant reemployment difficulties.

The program proposed here has admittedly generous potential benefit durations, but in return claimants face both incentives and requirements to limit lengthy insured unemployment spells. They are given the tools to find employment, the skills to be employable, and financial incentives to search hard. Overall, it's a fair bargain: claimants will find it relatively easy to enter the program and the incentive structure of the program encourages them to find suitable jobs quickly. If, in practice, the plan proves too expensive to legislate, the maximum durations could apply only to selected, disadvantaged claimants. But those who are offered training must be pre-selected, knowing

in advance that they will have 52 weeks benefits, or they will be reluctant to enter intensive training.

What comes after 52 weeks? The Committee on Economic Security (1935) originally recommended a program of public works for those who exhausted their unemployment benefits. Such a program, however desirable, is almost certainly beyond the political boundaries of the United States in 1993. The National Commission proposed a unique extended benefit program for older workers based on their higher likelihood of lengthy unemployment. Another option is a means tested "dole" as most European countries and some states have. These General Assistance monies are under heavy fire with constrained state budgets and will require federal support if they are to be part of the social insurance landscape in the future.

E. MONETARY ELIGIBILITY. During the 1980s, states raised their monetary eligibility requirements and redefined "labor force attachment" in the process. The UI system is currently available only to those who are judged to have made a significant contribution to the insurance fund prior to their unemployment. This need not be the case with a social insurance program. Workers compensation, after which unemployment insurance was modeled in some states, is typically available from the beginning of employment.

To counter state trends and because part-time and contingent employment are increasingly prevalent,

eligibility should be based on definitions of labor force attachment that do not preclude low income job losers from receipt of UI. There are four ways that states define labor force attachment: weeks of work, multiples of weekly benefit amounts, multiples of high quarter earnings, and flat minimum earnings (Employment and Training Administration, 1978). Currently only Oregon has a qualifying formula based solely on weeks of work. Washington state requires 680 hours of work and does not specify wages.

Most policy prescriptions for UI advocate using weeks worked, not monetary requirements, as a measure of labor force attachment (Haber and Murray, 1966; Unemployment Insurance Research Advisory Committee, 1975; Employment and Training Administration, 1978; National Commission on Unemployment Compensation, 1980). In that vein, the National Commission found that "the time-at-work criterion is sound and should be encouraged" (p. 37). The National Commission recommended that states adopt a minimum of not less than 14 weeks work for claimants to receive maximum UI benefits (p. 38). But there are tradeoffs to this measure. In reviewing state practice, the Department of Labor concluded that "weeks of work is both the most theoretically attractive and, administratively, the most expensive method for measuring attachment" (Employment and Training Administration, 1978).

Both the required level and the chosen measure of labor force attachment are contentious. Table 4.6 shows the range of labor force attachment measures among states that provide a uniform duration of benefits (26 weeks). It also shows the average duration of benefits received, which will be discussed later.

[Table 4.6]

The table is informative because it shows the range of earnings requirements among states which currently provide the duration of benefits proposed here. Among states that provide a uniform 26 weeks of benefits, the toughest monetary eligibility requirement is just $2,800. Working 40 hour weeks for minimum wage it would take about 16 weeks to be eligible for benefits, two weeks more than the National Commission minimum recommendation. It would take only five weeks in Maryland. The National Commission standard of 14 weeks is more than the average for all uniform duration states, but slightly less than the toughest state. On balance, the National Commission recommendation of a labor force attachment requirement of at least 14 weeks work is a reasonable standard to suggest for the new program. The Commission did not specify the number of hours worked to qualify as a benefit week. Using the Bureau of Labor Statistics definition for more than half a part-time work

week (35 hours or less), a reasonable standard would be 18 hours of work or more to count as a week worked. At the very least, as an interim measure, states should include the last quarter of employment in their earnings calculations, reducing the effect of lagged quarters on reentrants and seasonal workers.

F. CONTINUED ELIGIBILITY. For purposes of continued eligibility, the "suitable work" definition should be derived from the Title III definition governing performance of dislocated worker programs. Under Title III, a Service Delivery Agency (SDA) must show that a client attained a given wage replacement rate upon reemployment or the client will not count as a "placement" for contract compliance. This encourages SDAs to place claimants in high wage jobs. The requirement is around 80 percent wage replacement. Applied to unemployment insurance, a claimant would not have to accept a job paying less than 80 percent of previous earnings. This is definition currently in use in New York. New York also applies a standard that an offered job must require skill levels equal to or greater than a claimant's previous employment or the claimant may refuse the offer (Hodges, 1990). Trade Adjustment Assistance operates on a similar standard. Currently, one-third of all dislocated workers find jobs that pay below 80 percent of their previous wage (Congressional Budget Office, 1993). Most of these claimants would still permitted to accept such jobs,

but a suitable work standard should be in effect to keep them from being disqualified from benefits if they don't.

Instead of requiring a claimant to be available and actively seeking work to retain benefit rights in all cases, an active labor market policy also allows continued eligibility for benefits if there is progress toward a training regime agreed upon by the claimant and his or her caseworker. Being in a training program currently absolves claimants from actively seeking work in most states, but the income from UI is currently insufficient for a sustained training program and brief benefit durations make longer training programs unmanageable. Also, states have wide discretion to define "training".[70]

In the reform proposed here, a claimant who is not in a training program must attend job search workshops and work with an Employment Counsellor. Current job search requirements are typically underenforced and lack a job search training component. This should be replaced by personal attention and evaluation. Here, too, the bargain is fair: the system would impose heavy pressure to look for work if a claimant has marketable skills, but the pressure would be mitigated by tough standards for suitable work.

The requirement that claimants be "able and available" for work should also be waived for self-employment programs.

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70 The only federal regulation is that JTPA Section 302 programs must count as training (National Foundation for Unemployment Compensation and Workers' Compensation, 1991).

Currently Washington state (Employment and Training Administration, 1989) and Oregon, Minnesota, and Massachusetts, through the Three-State Self-Employment Demonstration Project, (Kerachsky and Corson, 1989) are pursuing experiments in self-employment. These projects pay claimants a lump sum (Washington) or weekly payments (Three-State) to support themselves during business development. They also provide business support services of various kinds. Judgment on extending these programs should be withheld until the program results are known in late 1993. One area of concern in such programs is continued eligibility for benefits should the claimant's business fail.

G. DISQUALIFICATIONS. Disqualifications are limited to fraud, misconduct, suitable work refusal, quits.[71] As most presidential administrations and the National Commission recommended, durational disqualifications should not be permitted. A federal maximum disqualification period of six weeks should be enforced, but states could have briefer disqualification periods if they covered additional cost. Some administrative cost savings will result from less cumbersome disqualification structure. Also, as noted

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71 The range of behaviors which are grounds for disqualification are remarkably similar across industrial countries. What varies is the severity of the punishments.

previously, personal reasons, such as sexual harassment, should be included as just cause in state statutes.

The change in disqualifications for quitting could prove particularly controversial. Employer advocates argue that someone who quits his or her previous job is not "involuntarily" unemployed or unemployed "through no fault of their own." That may be true at first, but after several weeks of unemployment if that individual has not found employment they should be entitled to benefits (if they meet the prior labor force attachment requirement proposed above). They are, arguably, involuntarily unemployed at some point after quitting a job if no new job is found.

H. SUMMARY OF BENEFIT-SIDE PROPOSALS. Although many specific changes are discussed above, a minimal program would be:

1. "Profiling" to identify service levels needed.

2. Career guidance, job search assistance, and workshop requirements for all claimants not expecting recall.

3. Potentially long benefit durations (for trainees at the very least; triggered at a low level for all).

4. Elimination of durational disqualifications.

5. Lower monetary eligibility requirements.

6. Adequate wage replacement rates.

Profiling and job search assistance for dislocated workers are on the political agenda as this is written, but only to

serve dislocated workers. Because we know the programs are cost-effective, they should be extended to more claimants. Indeed, the Washington experiment showed greater net savings for claimants who received search assistance and were not dislocated workers (Johnson and Klepinger, 1991). To be equitable and facilitate maximum participation, reforms such as search assistance and bonuses should not stand alone; they require sufficient benefit levels and durations to make training possible.

Although the reform proposed here goes beyond traditional demands for quantitative federal standards, federal standards are unavoidable if the program is to include most of the unemployed and replace significant spending power. The following areas should be subject to federal standards as advocated above:

1. Benefit durations (26 weeks for states),

2. Extended benefits (26 weeks),

3. Wage replacement rates (50 percent of Average Weekly Wage),

4. Labor force attachment requirements (14 weeks work),

5. Six week denial periods (no durational disqualifications),

6. Work search requirements (employment plan, monitoring, workshops),

7. "Suitable Work" (80 percent wage replacement).

In the past, this level of federal intervention has proven impossible to legislate, but the reform proposed here has two advantages. First, although federal intervention is increased, many aspects of it will save states money. Second, states are feeling the impact of lengthy unemployment durations but feeling powerless to act against them. Many state experiments in the late 1980s were deemed successful by program administrators, but suffered along with other programs when state budgets were cut. In return for some relinquished prerogatives, states will gain substantial resources (for administration, for Extended Benefits, for worksharing) and the opportunity to implement some proven strategies. Worksharing, in particular, could be fostered with a targeted subsidy from general revenues, as in most foreign examples, thus avoiding the complications of experience rating.

Illustration of the program.

A clearer image of how a new program would operate can be gained by illustration.[72] If unemployment insurance is to underlie an active labor market strategy, the program should work like this:

A potential claimant enters the Employment Service office. They are asked a series of questions relating to eligibility. If they are eligible for UI benefits (see

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72 The discussion of dislocated worker programs owes much to conversations and work with Carolyn Peckham of E.J. Malek and Associates.

requirements above), they are assigned an Employment Transition Counsellor. They take a brief (20 minutes) skill assessment exam to see if they can read and write. This test is a requirement for benefits and benefits are immediately available after its completion. One week later, after the reading test is processed, a more detailed "skill inventory" is done. The program proceeds in one of two directions depending on the results of the Skill Assessment. The two groupings relate to six types of intervention. From most intervention to least, the six treatments are: remedial education, lengthy training, skill upgrade, OJT, job search assistance, monitoring of job search.

The level of intervention available to a claimant will depend upon his or her anticipated employment search difficulties due to low skill levels or personal characteristics. Teenagers should be granted access to guidance and/or some training to avoid situations in which a teenager loses a job, draws lengthy unemployment benefits, and gets shunted onto a low wage career path either because the unemployment spells are a stigma or because they see no career alternatives.[73] Those who have received WARN notices are included because they are currently automatically available for Title III services.[74] As noted previously,

73 The proposal assumes no new teenage apprenticeship programs are in effect. If (when?) such proposal reach fruition, the role of unemployment insurance for teenagers should be re-evaluated.

74 A rule of thumb among dislocated worker program administrators is that training programs currently run twice as long as anticipated because UI must be

dislocated workers are over-represented among benefit exhaustees and are prime candidates for the types of intervention outlined below.

GROUP ONE. Those with identifiable labor market disadvantages (no marketable skills, received WARN notice, "dislocated") are eligible for a maximum 52 weeks of benefits and free entrance into one of the two most indepth training interventions (remedial education, career change training) for up to 52 weeks. They can opt for the lesser interventions, but they will be discouraged from doing so by their Counsellor. Working with their Counsellor, they develop a personal plan of action for career development and employment search. They choose accredited training programs. When training starts, they are contacted once a month to ensure continued participation in training programs in order to receive UI. During the last six weeks of benefits, job search training begins.

GROUP TWO. Those without identifiable labor market disadvantages are only eligible for free involvement in the less intensive interventions. They receive job search training and one 26 week training credit. If they choose not to enter a skill upgrading training program of up to 26 weeks, they must attend two sessions of job search workshops

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supplemented by part-time employment (Neuenfeldt, 1992). Although training costs are not estimated in this proposal, a rule of thumb in grants for dislocated worker funding is that 26 weeks costs about $3,500 per dislocated worker.

to continue receiving benefits. They must accept "suitable work" when they are not in training, as defined below.

Assuming for now that EB is not subject to a trigger, at the end of 26 weeks a Group Two claimant who has not found work gets a reassessment. They are allowed to enter longer training programs when they enter the program, at the end of 26 weeks, or at any other time, but longer programs are not free for them after 26 weeks. They are offered low interest loans for training costs related to programs lasting more than 26 weeks. Income support lasts up to 52 weeks, subject to continued eligibility requirements, regardless of training option chosen, and both skill upgrade and long term training allow them to avoid the "able and available for work" requirement.

Note that under the maximum proposal there is no difference in the potential maximum duration of benefits for different groups. Both receive benefits out of EB funds after 26 weeks, which is currently half federally funded. All training programs are voluntary. Attendance at job search workshops is a requirement when training is completed or if it is not undertaken. Alternatively, EB could be triggered for all but at-risk claimants.

It should also be noted that this reform offers opportunities to humanize the treatment of claimants and the perception of the Employment Service. Peer counsellors, recruiters from among plant closings victims, job search clubs -- these initiatives are vital elements of program

reform. The personal experience of the author in work at the General Dynamics Employee Transition Center and evidence from the Industrial Services Program in Massachusetts suggests that peer contact and support can make the difference between successful search strategies and alienating failure.

Financing the New System.

Many of the reforms proposed here will save money, but states have been reluctant to make the programmatic down payment. The profiling and search assistance programs suggested here have proven themselves. But what is the cost of a reform package that also includes needed duration and benefit level increases?

In addition to the usual vagaries of costing social insurance reforms, this proposal has two elements that make accurate cost estimates difficult to forecast. First, although many aspects of the proposal appear in state experiments or national programs, the unique combination advanced here has not been tested. Interaction among program elements makes outcomes difficult to foresee. Second, one goal of the program is to alter the way unemployment insurance responds to shocks (e.g., NAFTA, defense cuts) and cycles. A snapshot of estimated cost at a point in time is necessary, but program cost will vary dramatically with cycles, shocks, and institutional learning over time. To simplify, the costing pursued here will

assume 1991 program levels (the most recent year for which all data is available) and allow a generous range of uncertainty (plus or minus five percent).

Having said all that, if we set aside the cost of work sharing and bonus programs, the basic elements of program cost are constant regardless of specific legislation: the number of workers claiming benefits, the level of benefits received, the duration of benefits, and the administrative costs of the program. These four determinants of program cost are influenced in different ways by five elements of the program. The magnitude of each change, and the net effect of them all, is uncertain in advance, but the direction of influence is as follows:

1. The number of claimants is increased by the lower earnings hurdle, potential increases in applications, less stringent disqualification penalties (though not rates).

2. Durations will increase somewhat with potential durations.

3. Durations will fall due to search help and post-training employment opportunities.

4. The higher wage replacement rate will increase benefit costs.

5. Administrative cost will increase with "profiling", counselling for training and career planning, and search workshops.

In the costing that follows, some explicit assumptions will be made to estimate the relative effects of these changes on numbers of claimants, benefit levels, and durations.

I. The Number of Claimants.

A central goal of reform is to increase the percentage of the unemployed receiving benefits. One shortcut toward an upper bound estimate of the number of claimants in the reformed system is to assume the post-war high of 1975 benefit recipiency rates (75 percent) and apply that to 1991 unemployment. This is an admittedly blunt instrument, but provides a high estimate given the effort proposed to reverse declining recipiency rates. At 1975 recipiency rates, 6.3 million unemployed workers would have claimed benefits in 1991, about double the actual number of claimants.

Although not a bad approximation of the largest potential effect of the reform proposal on new claims, some of the specific elements of the proposal can be estimated with more accuracy. As this paper has shown, benefit recipiency rates vary dramatically across states and minimum earnings requirements have played a key role in that variation. Table 4.7 shows the effect on each state program of the federal minimum earnings requirement proposed here. The table compares current state earning requirements with the experience of a worker earning the federal minimum wage at a part-time (18 hours/week) job. This provides an extremely conservative estimate of states above the minimum given that the standard is hours and weeks worked and most of those weeks are at <u>average</u>, not minimum, wages.

[Table 4.7]

By this conservative measure, the new standard is already met by twelve states (who could then raise their earnings thresholds).

Changing current disqualifications from durational to denial periods has more complex effects. Assuming that the number of disqualifications is unchanged, but the severity of penalties varies, the effect is as follows:

New Claimants = DQ - (.4)(DQ)

Where DQ is the number of disqualifications (counting all disqualifications as durational for simplicity) and the coefficient is the percentage of the unemployed out five weeks or less, i.e., unemployed for less time than the six week denial period would have run. The adjustment assumes (1) that disqualified claimants have a distribution of potential unemployment that matches the total population of unemployed, and (2) that they cannot intentionally lengthen their unemployment spells beyond five weeks to receive benefits after the denial period. It also includes suitable work refusal disqualifications at the 1991 level, though such disqualifications will decline with higher wage

replacement suitable work definitions.[75] By this accounting, 1.9 million more claimants would have received some benefits in 1991.

Although the absolute number of new claimants is important to know, this proposal includes different treatment levels for different subpopulations. Cost estimates will depend heavily on the populations of Groups One and Two, the high treatment and standard treatment categories of claimants. Group One is essentially all dislocated workers. Estimates of this population range from 100,000 (Bendick, 1983) to between 1.5 and 2.7 million a year through the 1980s (Congressional Budget Office, 1993). By any definition, all are job losers and, hence, more likely than most unemployed workers to already be receiving benefits. About 60 percent of all dislocated workers receive UI (Congressional Budget Office, 1993). Using the CBO definition of dislocated workers (which is used in the profiling process for this reform proposal) and a marginal increase in the percentage receiving benefits of 15 percentage points, the total number of Group One claimants would have numbered around 1.7 million in 1990, the last year of the Congressional Budget Office survey.

Group Two, the less expensive category of claimants, will expand by more than Group One because the category

75 Data constraints make it impossible to estimate the exact effect of an 80 percent wage replacement rate for "suitable work". It would be necessary to know how many of the unaccepted job offers met the 80 percent criteria.

includes more potential claimants who are currently denied benefits. Subtracting dislocated workers from total unemployment leaves 6.2 million potential claimants. Based on Congressional Budget Office estimates of dislocated workers and their recipiency rates, working backwards from known 1991 benefit recipiency rates and calculating a weighted average reveals that only 19 percent of non-dislocated worker claimants received UI in 1991. If their recipiency rate had been 56 percentage points higher (75 percent), 4.65 million new Group Two claimants would have been in the reformed system in 1991.

II. Benefit Levels.

Again, this reform proposal does not affect all states to the same extent. The wage replacement standard is 50 percent of average weekly wages in covered employment. Weekly benefit amounts will increase, on average, by the difference between half of average weekly wages (AWW) and current average weekly benefits (AWB), or:

Net New Benefit Cost = .5 (AWW) - (AWB)

On a state by state basis, Table 4.8 shows the result.

[Table 4.8]

The unweighted average increase in state weekly benefit amounts is $50, ranging from $117 in Alaska to $3 in Hawaii.

III. Durations.

By far the most difficult change to estimate is durations. The task is complicated by the existence of two treatment groups and proposals that lengthen potential durations while promoting briefer spells with search requirements and assistance. Assumptions about duration increases are built in to the first rows of the costing table (4.9). Assumptions about duration reductions are included in the "potential savings" rows.

Those claimants unemployed more than 26 weeks would be eligible for Extended Benefits, which is half federal and half state. In 1991, 1.1 million claimants were unemployed 27 weeks or longer. Unfortunately, there are no published figures on the mean duration of benefits received by claimants within the 27 week and over population. We do know that benefit durations received do not expand to exactly match the new maximums when EB is in effect: when New York added 13 weeks for vocational training, the mean additional duration received was 8.2 weeks (Employment and Training Administration, 1990).

All state programs currently provide at least 26 weeks maximum benefits, but many claimants exhaust benefits before meeting the maximum threshold. Among states that have uniform 26 week durations, as proposed here, the average duration of benefits received was 17.9 weeks. An upper bound assessment of the effect of uniform durations is to

compare benefit weeks paid per claimant in uniform 26 week states and in the remaining states. Table 4.6 has those numbers, showing a 3.1 week differential between states with uniform 26 week durations and those with varying durations, not controlling for other differences. We will assume the higher average duration of benefits received in the 26 week states will apply to Group Two claimants in all states under the proposal.[76]

The work disincentive effects of higher benefit levels can be expected to lengthen spells, however slightly. But the search assistance and monitoring provisions are known to reduce spells. Although not always reported in terms of weeks, the New Jersey reemployment experiment indicates significant potential benefit savings. Profiling and search assistance saved $134 per claimant. Profiling, search assistance, and a reemployment bonus reduced benefit durations by 1.6 weeks in New Jersey. The Washington experiment with intensive job search assistance, but no bonus, found reduced durations of .7 weeks, a 6.8 percent reduction in weeks of benefits compared to a control group (Johnson and Klepinger, 1991). Under the reform proposed here, net cost savings will be greater because reductions in duration are multiplied by larger benefit amounts, but for a conservative estimate existing experience will be used.

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76 The average of 17.9 weeks is likely to be too high given that the 26 week state average includes dislocated workers and their lengthier spells.

IV. Administration

Administrative costs fall into three categories: profiling, search assistance, special workshops, training. Profiling was recently added to federal UI program expenses for two years, so it adds no net new costs to states. Profiling is also easily integrated into current processing routines for processing claimants.

Search assistance costs will depend on the time spent with each client. Search assistance will cost 1/2 hour per client every two weeks maximum at roughly $20.00 an hour per employee. Across all claimant populations, the average duration of unemployment is 23.5 weeks, or 5.9 staff service hours per claimants for search assistance. Special workshops in the New Jersey experiment lasted three hours each morning for a week (Department of Labor, 1993). If 20 claimants attend each weekly workshop, and only one, then the cost will be: (claimants /20) * (staff compensation * 15 hours) + the cost of materials.

Full discussion of reforming training delivery systems and funding is beyond the scope of this discussion. For costing purposes, classroom training is assumed to be provided under some variant of the Job Training Partnership Act (JTPA). A rule of thumb for training programs under JTPA Title III is that a 26 week training program costs between $3,000 and $5,000 for training and administration.

Claimants, Benefits, Duration, and Administration

Table 4.9 is an attempt to estimate the additional effect of the programs proposed here based on the assumptions discussed above. The costing assumes all claimants receive benefits in only one spell of unemployment. It excludes work sharing costs.

[Table 4.9]

The figures in the box indicate that under some specific assumptions, before accounting for training expenses, the program could save money. This will be true because the increase in potential durations is partially offset by programs to reduce durations. Also, the reforms proposed have proven cost effective in state experiments. The high estimate net cost ($5.7 million) is still only .28 percent of taxable payrolls and that percentage will fall with the higher proposed taxable wage base.

Any proposal for reform of unemployment insurance financing must address the quintessential element of the US financing system, experience rating. No other advanced industrial nation has experience rated unemployment insurance taxes (Social Security Administration, 1992). As noted in Chapter One, experience rating has been a contentious issue since the founding of the program. An early opponent of the process, Eveline Burns, described

experience rating as "the most significant obstacle to the adoption of a consistent unemployment insurance" which reflects "social and economic realities" (Burns, 1945).

Burns spells out the preconditions of an experience rating system that would accurately match tax rates to employer merit. To be an equitable and effective economic stabilizer, experience rating would have to: (1) provide tax breaks only where employers can prove that they took decisive action, not when accidental fluctuations in employment or action to avoid compensable claims reduces benefit payments; (2) classify industries and individual employers by their capacity to influence employment levels; and, (3) withstand pressure from groups of firms that would alter the system to their advantage (Burns, 1945). Clearly, these preconditions do not exist under the current system.

Even if such a system could be implemented, it is not clear that complete experience rating, as it is known in the UI trade, would actually be desirable. Experience rating is essentially a throw back to old systems with employer reserves. It is arguable that, in fact, the "socialization" of layoff unemployment and "adverse incentives" of partial experience rating are desirable. Cross-subsidization by industries means that unavoidable cyclical pressure on high-layoff industries does not disproportionately cost those employers (particularly in manufacturing). Literature on incomplete experience rating shows that employers who have reached the maximum tax rate have more short term layoffs

(Kaiser, 1987; Fitzroy and Hart, 1985; Burdett and Hool, 1983; Feldstein, 1978; Feldstein, 1976). But the alternative could be worse if they didn't enjoy such incentives. Average employment levels in manufacturing, for example, will be higher under incomplete experience rating because the subsidy for brief layoffs allows equilibrium employment levels to be artificially high. Short layoffs are a sign of labor hoarding: workers face brief unemployment spells but remaining on-roll with a given employer. Short time compensation schemes have been advocated for the same reason: human capital investment is facilitated and encouraged by such labor hoarding. Worksharing and Short Time Compensation should be implemented to reduce the effect of experience rating on short layoffs and to encourage bargaining over work time and higher employment levels.

Dramatic change, such as eliminating experience rating, may be desirable but unnecessary. First, the only additional burdens on the UI system under this proposal is the EB entitlement (half state expense) and an increase in administrative costs (100 percent federal). Second, states could be granted considerable leeway in financing given that benefit levels, durations, and disqualifications are federally mandated. It may be desirable to allow states to establish their own funding mechanisms if federal standards for program quality ensure that program goals are not compromised (as they have been in the past).

Interstate competition would play out in the mix of taxes, but not in the mix of program provisions. For example, a tension exists between high wage and low wage employers with respect to the taxable wage base. All else being equal, a high wage employer will face a lower effective tax rate than a low wage employer at a constant taxable wage base. Given that a state must meet certain spending requirements that are roughly equivalent across states, the specific mix of tax bases and tax rates can be left to state discretion without undue downward pressure on program standards. If necessary, a federal standard for minimum experience rated taxes, perhaps one percent as proposed by the Committee on Economic Security, would provide a further safeguard against downward pressure from interstate competition.

Federal guidance could be used to foster state activity, if not impose requirements. One alternative to suggest is triggering wage base and/or tax rates changes in response to low reserve ratios. A second is to index the taxable wage base (perhaps to the social security wage base) and reduce tax rates accordingly. A third, more controversial option, would be to assess employee contributions (as in Alaska and New Jersey) or trigger employee contributions in the event of low trust fund reserves (as in Pennsylvania and West Virginia). The "Ohio Plan" in the 1930s suggested this financing option, in part because it changed the political balance between workers and

employers (who currently argue that they should have more control given their sole-source financing). As with most payroll taxes, the incidence of the tax varies and it is incorrect to say that employers bear the full burden. As part of the bargain over a new system, however, it is fair to put modest employee contributions on the table, as they are in other industrialized countries.[77]

Will this hurt US "competitiveness"?

It would be surprising to find that UI taxes affect competitiveness, given the small portion they are of total cost to a firm. In Michigan at the beginning of 1993, and throughout the states during the 1980s, the argument took concrete form when Republican legislators proposed lower minimum UI tax rates as an economic development tool. Can lower minimum UI taxes improve the employment picture?

The scatterplot (Graph 4.1) shows state experiences during the recovery of the 1980s, comparing changes in minimum UI taxes on one axis and changes in employment on the other.

[Graph 4.1]

77 For example, Canadian employees pay 2.35 percent of payroll; Germans, 2.15 percent; French, 2.31 percent. Germans split the cost between employee and employer. Other countries charge employees about one-third.

The relationship between tax changes and employment change is tenuous at best. The states are not only widely dispersed. They also fall heavily on the negative side of both the minimum tax rate axis and employment change axis, meaning that most states reduced taxes but got none of the anticipated employment boost that "competitiveness" advocates had declared. Instead, in a pattern familiar from Chapter Two, states ratcheted their programs downward together.

A brief look at international competitors further indicates that fears of over-generous unemployment insurance in the United States are baseless (Congressional Research Service, 1992). Table 4.10 compares some salient characteristics of other national programs.

[Table 4.10]

Perhaps most important, other countries promote both unemployment insurance for cyclical downturns and "unemployment assistance" (Atkinson and Micklewright, 1991) for the extremely long term unemployed, an expensive but common proposition. No other countries except the United States have experience rated programs. Many programs rely heavily on general revenues. All told, the program proposed is not more burdensome for employers than programs in other countries and, in fact, will benefit employers through labor

market efficiency, higher consumption, and reduced cyclicality of demand.

Toward the 21st Century.

This dissertation has charted the course of unemployment insurance in the United States, from the Social Security Act of 1935 to the onslaught against claimants that marked the 1980s. Against a backdrop of economic transformation, the federal/state unemployment insurance system was only marginally changed in almost 60 years. Despite clear patterns of downward convergence across the states, the federal partner sat dormant until, in the early 1980s, it awoke to add its weight to the forces working against claimants. Now there is an opportunity to bring about a Twenty-First Century unemployment insurance policy to match the new needs of the workforce and employers. If the nation pursues effective trade and industrial policies on the demand side, a renewed UI system can play a crucial role on the labor supply front.

The system proposed here is a series of compromises that advance the UI system. Current program administrators (the Interstate Conference of Employment Security Agencies) retain substantial control and enjoy expanded authority in some areas. Employers will resist the lengthy maximum durations and higher benefit levels, but the "welfare" aspect of long durations is reduced through job search assistance and testing. Claimant advocates have long argued

for longer benefits and higher replacement rates, but claimants, with appropriate safeguards, must take additional responsibility for charting their future and moving toward renewed employment.

As this is written, a new Federal Unemployment Insurance Advisory Council has held its first meeting to identify a new course and fashion a consensus. Perhaps the damage of the 1980s will be reversed.

TABLE 4.1
Selected Characteristics of UI Exhaustees and Other Claimants

Characteristics	Exhaustee	Other Claimants	Points Difference
Less than HS Education:	22.6%	20.9%	1.7%
Two years or less previous tenure:	46.3%	41.7%	4.6%
Industry:			
Manufacturing	30.9%	42.7%	-11.8%
Retail Trade	11.6%	8.6%	3.0%
Services	19.0%	13.8%	5.2%
Occupation:			
Managerial/Professional	11.6%	8.3%	3.3%
Admin. Support	19.4%	12.2%	7.2%
Service Occupations	9.6%	6.4%	3.2%
Precision Production	2.3%	2.8%	-0.5%
Machine Operators	16.2%	25.9%	-9.7%
1987 Household Income:			
Under $10,000	21.2%	14.5%	6.7%
$10,000- $20,000	32.0%	32.9%	-0.9%
Plant Closing:	16.2%	9.1%	7.1%
Dislocated Worker (3yr tenure):	20.7%	9.0%	11.7%

Source: Corson and Dynarski, 1990.

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TABLE 4.2
Post-Exhaustion Industry and Occupation Change
Selected Industries and Occupations, 1989

	Pre-UI Job	Post-Exhaustion Job	Point Change
Industry			
Durable Manufacturing	16.2%	9.8%	-6.4%
Nondurable Manufacturing	14.3%	11.3%	-3.0%
Retail Trade	10.8%	16.0%	5.2%
Services	18.2%	24.1%	5.9%
Occupation			
Sales	6.4%	10.2%	3.8%
Service Occupations	8.5%	13.4%	4.9%
Precision Production	2.4%	1.4%	-1.0%
Machine Operators	15.8%	11.1%	-4.7%
Handlers	8.6%	10.1%	1.5%

Source: Corson and Dynarski, 1990.

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TABLE 4.3
Policy Perspectives

Issue	Current Trends	Traditional Reform Response	Active Response
Lengthening Unemployment Spells	Limit Receipiency Rates	Increase Duration Emergency Benefits	Link to Dislocated Worker Programs
Falling Wage Rates	Lower Benefits	Lower Eligibility Requirements	Redefine Labor Force Attachment
Suitable Work	Minimum Wage, Physically Capable	High Wage Replacement	Wages, Benefit, Package Skill Levels
Financing Crisis	Raise Maximum Tax, Cut Benefits	Raise Wage Base	General Revenue and Employer Tax
Disqualification	Durational	Denial Periods	Denial Periods Reflect Market
Wage Replacement Rates	Work Disincentive	Income Maintenance	Facilitate Training

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TABLE 4.4
State Supplemental Benefits

State	Eligible Population	Duration	Services	Notes
California Training Extension Program	Title II, Title III, Handicapped, tech impact.	52 wks max.	Income during training.	Almost 1/3 denied benefits due to marketable skills. Can't apply after 16 wks benefits.
Iowa	Employer out of business.	26 more weeks max.	Only Benefits.	
Maine Dislocated Worker Benefits	Laid off; eligible or exhaustee; unlikely to return to industry or occupation; age.	26 more weeks.	Benefits. Must be in training.	Avg. 18 wks duration.
Massachusetts DET	Title II, Title III, WARN, 15 wks unemployed, no recall.	Up to 52 more weeks.	Must be in training, employment planning.	
Massachusetts RAB	Full or partial plant closing.	Up to 13 more weeks.	No training requirement. Health benefits.	Max. $97/wk benefit.
New York	Tech change, plant closing, seasonality, handicap.	Up to 13 more weeks.	Must be in training.	Avg. 34.2 weeks total.

Source: Employment and Training Administration, Occasional Paper 90-2, 1990.
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Table 4.5
Short Time Compensation Programs
1992

State	Maximum Duration	Hours Reduction	Benefit Maintenance	Special Max. Tax Rate
Arizona	52	10 to 40%	Optional	2.0%
Arkansas	52	10 to 40%	Required	None
California	26	10% or more	Optional	None
Florida	52	10 to 40%	Optional	1.0%
Iowa	104	20 to 50%	Optional	None
Kansas	52	20 to 40%	Optional	None
Louisiana	52	20 to 40%	Required	None
Maryland	26	10 to 50%	Optional	None
Massachusetts	26	10 to 60%	Health Required	None
Missouri	52	20 to 40%	Optional	1.17%
New York	52	20 to 60%	Required	None
Oregon	52	20 to 40%	Optional	3%
Rhode Island	52	10 to 50%	Optional	None
Texas	52	10 to 40%	Optional	None
Vermont	26	20 to 50%	Optional	None
Washington	52	10 to 50%	Health Required	None

Source: Vroman, 1992. New York [illegible] updated.

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TABLE 4.6
Earnings Requirements and Benefit Durations
Uniform Duration States, 1991

	Base Period Earnings Requirement	Average Benefit Duration (weeks)	
Connecticut	$600	16.2	
Hawaii	$150	13.0	
Illinois	$1,600	17.2	
Maryland	$900	16.7	
New Hampshire	$2,800	12.4	
New York	$1,600	20.0	
Vermont	$1,437	16.1	
West Virginia	$2,200	15.1	
Average for 26 week states:		17.9	*
Average for other states:		14.8	
Difference:		3.1	

* Averages weighted by unemployment in those states.

Source: Earnings requirements from NFUCWC, 1992.
Durations from Unemployment Insurance Service, 1992.

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Table 4.7
Minimum Earnings Requirements: Current and Proposed
1991, Ranked by Amount Above Proposed Standard

State	(1) Required Earnings	(2) Proposed Earnings	(3) Difference (2-1)	(4) Current Hrs. @ Min.Wg.	(5) Proposed Hours	(6) Difference (5-4)
OK	$3,640	$1,096	($2,544)	837	252	-585
VA	$3,000	$1,096	($1,904)	690	252	-438
NH	$2,800	$1,096	($1,704)	644	252	-392
ND	$2,795	$1,096	($1,699)	643	252	-391
IN	$2,500	$1,096	($1,404)	575	252	-323
NC	$2,212	$1,096	($1,116)	509	252	-257
WV	$2,200	$1,096	($1,104)	506	252	-254
ME	$2,176	$1,096	($1,080)	500	252	-248
NJ	$2,060	$1,096	($964)	474	252	-222
MI	$2,010	$1,096	($914)	462	252	-210
OH	$1,702	$1,096	($606)	391	252	-139
RI	$1,700	$1,096	($604)	391	252	-139
KS	$1,650	$1,096	($554)	379	252	-127
NY	$1,600	$1,096	($504)	368	252	-116
IL	$1,600	$1,096	($504)	368	252	-116
SD	$1,568	$1,096	($472)	360	252	-108
TN	$1,560	$1,096	($464)	359	252	-107
WA	$1,525	$1,096	($429)	351	252	-99
WY	$1,500	$1,096	($404)	345	252	-93
UT	$1,500	$1,096	($404)	345	252	-93
MO	$1,500	$1,096	($404)	345	252	-93
KY	$1,500	$1,096	($404)	345	252	-93
AZ	$1,500	$1,096	($404)	345	252	-93
VT	$1,438	$1,096	($342)	331	252	-79
ID	$1,430	$1,096	($334)	329	252	-77
WI	$1,428	$1,096	($332)	328	252	-76
TX	$1,369	$1,096	($273)	315	252	-63
GA	$1,350	$1,096	($254)	310	252	-58
PA	$1,320	$1,096	($224)	303	252	-51
MN	$1,250	$1,096	($154)	287	252	-35
NE	$1,200	$1,096	($104)	276	252	-24
MS	$1,200	$1,096	($104)	276	252	-24
MA	$1,200	$1,096	($104)	276	252	-24
LA	$1,200	$1,096	($104)	276	252	-24
MT	$1,176	$1,096	($80)	270	252	-18
AR	$1,170	$1,096	($74)	269	252	-17
NM	$1,151	$1,096	($55)	265	252	-13
CA	$1,125	$1,096	($29)	259	252	-7
AL	$1,032	$1,096	$64	237	252	15
OR	$1,000	$1,096	$96	230	252	22
CO	$1,000	$1,096	$96	230	252	22
AK	$1,000	$1,096	$96	230	252	22
DE	$966	$1,096	$130	222	252	30
IA	$960	$1,096	$136	221	252	31
SC	$900	$1,096	$196	207	252	45
MD	$900	$1,096	$196	207	252	45
NV	$600	$1,096	$496	138	252	114
CT	$600	$1,096	$496	138	252	114
FL	$400	$1,096	$696	92	252	160
HI	$150	$1,096	$946	34	252	218

(1) Current monetary earnings requirements.
(2) Proposed standard expressed as 18 hrs/wk, 14 wks, federal minimum wage.
(3)(6) Negative numbers (in parentheses) indicate amount above proposed standard.
(4) Current earnings requirement expressed as hours at federal minimum wage.
(5) Proposed standard of 14 weeks at 18 hours per week.

Source: House Ways and Means Committee, various years.

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Table 4.8
Effect of Proposed Wage Replacement Rate
1991, Sorted by Replacement Rate Below Standard

State	Current Average Benefit	Current Wage Replacement	Proposed Average Weekly Benefit	Increase
CA	$143.61	28.0%	$256.45	$112.84
LA	$110.63	28.2%	$196.15	$85.52
IN	$112.48	28.3%	$198.73	$86.25
AK	$169.77	29.5%	$287.75	$117.98
NH	$130.45	30.0%	$217.42	$86.97
AL	$119.44	30.4%	$196.45	$77.01
TN	$118.36	30.5%	$194.03	$75.67
MO	$142.56	34.0%	$209.65	$67.09
GA	$148.91	34.1%	$218.34	$69.43
NY	$190.37	34.1%	$279.13	$88.76
MS	$115.62	35.0%	$165.17	$49.55
AZ	$143.05	35.2%	$203.20	$60.15
NE	$126.32	35.3%	$178.92	$52.60
CT	$206.32	36.0%	$286.56	$80.24
IL	$179.86	36.0%	$249.81	$69.95
VA	$156.81	36.7%	$213.64	$56.83
SC	$140.65	37.2%	$189.05	$48.40
NM	$134.53	37.3%	$180.34	$45.81
KY	$144.76	37.4%	$193.53	$48.77
MD	$178.77	37.5%	$238.36	$59.59
FL	$157.69	37.8%	$208.58	$50.89
DE	$183.33	38.1%	$240.59	$57.26
WA	$175.16	38.2%	$229.27	$54.11
TX	$170.11	38.4%	$221.50	$51.39
VT	$153.17	38.6%	$198.41	$45.24
NV	$168.28	38.8%	$216.86	$48.58
OK	$152.73	39.3%	$194.31	$41.58
NJ	$217.59	39.5%	$275.43	$57.84
CO	$172.68	39.6%	$218.03	$45.35
OH	$176.57	39.9%	$221.27	$44.70
SD	$121.67	39.9%	$152.47	$30.80
WV	$159.57	40.3%	$197.98	$38.41
MT	$142.89	40.5%	$176.41	$33.52
NC	$157.37	41.1%	$191.45	$34.08
AR	$139.54	41.3%	$168.93	$29.39
OR	$167.32	41.3%	$202.57	$35.25
ID	$152.71	41.5%	$183.99	$31.28
WY	$161.49	42.1%	$191.79	$30.30
MI	$212.42	42.2%	$251.68	$39.26
ND	$143.98	42.2%	$170.59	$26.61
WI	$175.82	42.2%	$208.32	$32.50
ME	$164.33	42.7%	$192.42	$28.09
MA	$222.49	42.9%	$259.31	$36.82
PA	$197.10	43.3%	$227.60	$30.50
MN	$194.47	44.0%	$220.99	$26.52
UT	$167.96	44.1%	$190.43	$22.47
KS	$176.10	44.7%	$196.98	$20.88
IA	$166.85	45.4%	$183.76	$16.91
RI	$204.38	47.9%	$213.34	$8.96
HI	$213.78	49.3%	$216.82	$3.04
			Average Increase:	$49.84

Note: Proposed benefits replace 50 percent of average weekly wage.
Source: Employment and Training Administration, 1992.

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TABLE 4.9
Net Cost of Reform Program

	Claimants	Weekly Benefits	Average Duration	Subtotals
GROUP ONE:	1,700,000	$177.16	39.0	$11,745,708,000
GROUP TWO:	4,650,000	$177.16	17.9	$14,745,912,600
ADMINISTRATION:	Claimants	Hours/ Claimant	$/Hr.	
Profiling				NA
Search Assistance	6,350,000	5.9	$20.00	$749,300,000
Workshops	317,500	15	$20.00	$95,250,000
TRAINING: (a)	1,700,000		$3,000	$5,100,000,000
POTENTIAL SAVINGS, Estimate #1		Saving/ Claimant (b)		
Group One:	1,700,000	($134.00)		($227,800,000)
Group Two:	4,650,000	($134.00)		($623,100,000)
POTENTIAL SAVINGS, Estimate #2			Reduced Duration	
Group One:	1,700,000	$177.16	-1.6	($481,875,200)
Group Two:	4,650,000	$177.16	-0.8	($659,035,200)
Bonus Expenses:(c)	20%	$500		$170,000,000

Total Proposal Cost (1991):		Plus 5%
Estimate #1	$31,585,270,600	$33,164,534,130
Estimate #2	$31,465,260,200	$33,038,523,210
Benefits Paid (1991): (d)	$27,505,400,000	$27,505,400,000
Net Cost (savings) of Proposal, Estimate #1:	$4,079,870,600	$5,659,134,130
Net Cost (savings) of Proposal, Estimate #2:	$3,959,860,200	$5,533,123,210
Percentage Increase in Program Cost, Estimate #1:	14.8%	20.6%
Percentage Increase in Program Cost, Estimate #2:	14.4%	20.1%

Taxable Payrolls (1990): (e)	$2,021,126,852,000

Net Cost as % of Taxable Payrolls: (f)		
Estimate #1	0.20%	0.28%
Estimate #2	0.20%	0.27%

(a) Training cost will vary widely due to assumptions about duration, courses, and take up rates.

(b) Estimate #1 is net savings, including bonus, based on state experiments.

(c) Take up rates and expenses based on state experiments.

(d) Benefits paid in 1991 does not include administration expenses.

(e) Most recent year available.

(f) The average employer tax as a % of taxable payrolls was 1.95% in 1990.

Note: See text for detail on methodology.

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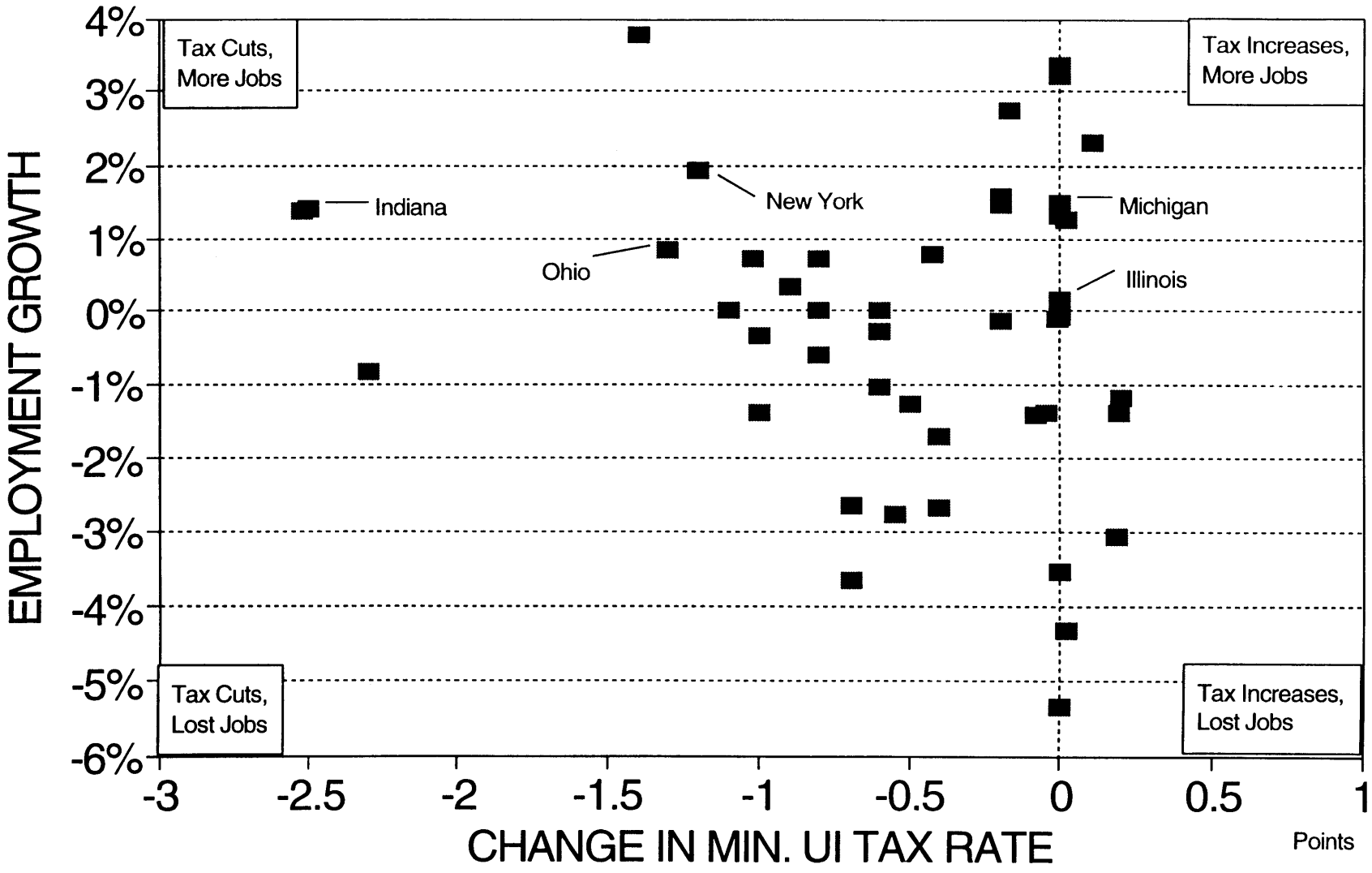
Graph 4.1

EMPLOYMENT GROWTH AND MINIMUM UI TAX CHANGES
1982 to 1990



Sources: National Foundation for Unemployment Compensation and Workers' Compensation, Highlights of State Unemployment Laws, 1982, 1990; BLS, Geographic Profiles, 1982, 1990.

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UNEMPLOYMENT INSURANCE
International Comparison

Eligibility	Wage Replacement	Duration
ries by State. Minimum earnings ries from about $150 to $3640. nnot be jobless due to voluntary it, misconduct, labor dispute, refusing suitable work. Some ites pay no benefits if ineligible these reasons.	No state paid benefits of even half of average wages. Best was RI at 46%. Louisiana only 27%.	Up to 26 weeks. Currently emergency ext unemployment compens covers additional 20 or 2 weeks in some cases.
nonths employment during previous ar. Same reasons as U.S. for ligibility, but briefer penalties. to 12 weeks disqualification.	68% of after-tax earnings. Low income get 58% if ineligible for regular U.I.	12-30 months. Must be older for 30 months cove
ries with regional unemp. rate. -14 weeks during previous year min. benefits, 20 or more weeks full benefits. 7 to 12 weeks qualification for same reasons in U.S.	60% of average earnings, up to $408 a week. 50% of average earnings if initially disqualified.	17-50 weeks with 2 week period.
nonths employment during last months. Disqualification for ne reasons as U.S. Denial period l to 3 months.	60 to 80% of wages. Minimum 3,170 yen.	90 days to 43 weeks. Ex to 48 months for sickness injury, maternity, and "ha to employ" cases.

cial Security Programs Throughout the World," Social Security Administration (1991)
dated through Heinx Mathieson, German Embassy; Canadian Unemployment Insurance Commission, Ottawa

Prepared by UAW Research Dept.

.wq\3-25-93

ACTIONS TAKEN ON MAJOR RECOMMENDATIONS OF THE NATIONAL COMMISSION ON UNEMPLOYMENT COMPENSATION AS REPORTED IN JULY, 1980

The National Commission on Unemployment Compensation (NCUC), which had been established under the provisions of the Unemployment Compensation Amendments of 1976 (Public Law 94-566, approved October 20, 1976), issued its Final Report in July, 1980. That Report included the unanimous and majority recommendations of the Commission for the improvement and strengthening of the unemployment compensation system.

Following is a recapitulation of the major recommendations of the NCUC together with a statement of the action taken to date on the recommendations. The listing of recommendations is from Chapter 1 of the Commission's Final Report, pages 2 through 5.

MAJOR RECOMMENDATIONS

I Removal of unemployment compensation accounts from the unified Federal budget.

No action has been taken on this recommendation.

II Financing: recommendations for putting the Federal-State program on sound financial footing.

A. Increase in Federal Unemployment Tax Act (FUTA) taxable wage base.

The FUTA taxable wage base was increased to $7000 effective January 1, 1983 (P.L. 97-248, the Tax Equity and Fiscal Responsibility Act of 1982). No action has been taken on the Commission's recommendation for establishment of the FUTA taxable wage base as a percentage of the national average total wage in covered employment.

B. Reduce employer payroll taxes for past debts.

No action has been taken on this recommendation. The 0.2% increase in the net Federal tax rate established by P.L. 94-566, the Unemployment Compensation Amendments of 1976, which was to be terminated when all advances to the Federal extended unemployment compensation account had been repaid (December, 1987), has since been extended through December 31, 1996.

C. Strengthen requirements for borrowing from loan fund to assure prudent financial policies.

Except for cash flow loans, interest was made payable on all loans made to States after April 1, 1982 , under the provisions of P.L. 97-35, the Omnibus Budget Reconciliation Act of 1981. Additional revisions were made in the loan mechanism by this law -- the majority of which were not in accordance with the recommendations of the Commission.

D. Reinsurance: provide States protection against unusually heavy benefit costs in order to maintain State solvency.

No action has been taken on this recommendation.

E. Establish Board of Trustees for unemployment insurance (UI) trust funds.

No action has been taken on this recommendation.

F. Correct FY 1982 (sic.) shortfall in funds for State costs of administration.

Establishment of a "true contingency" fund has helped alleviate this problem to some extent. This action, however, is substantially different from that recommended by the Commission.

G. Recommendations to the States on financing (not Federal law changes).

The Commission's recommendations presented a series of recommendations for State action. Action on these recommendations varies by State.

III Remove unemployment benefits from being subject to Federal income tax.

Rather than remove the partial taxation of unemployment benefits under the income tax provisions (as was the case at the date of this recommendation), P.L. 99-514, the Tax Reform Act of 1986, made all UI benefits received after December 31, 1986, subject to inclusion in taxable income for purposes of the Federal income tax.

IV Benefits: recommendations for ensuring a sound benefit structure.

A. Repeal current Federal standards.

P.L. 102-164, the Emergency Unemployment Compensation Act of 1991, amended FUTA to permit States, at their option, to pay benefits between school years and terms to certain school employees. No action taken on other recommendations of the Commission on this issue.

B. Establish Federal basic minimum benefits standards.

No action taken on this recommendation.

C. Greater protection during periods of heavy unemployment and to older workers.

Rather than provide greater protection during periods of heavy unemployment, P.L. 97-35, the Omnibus Budget Reconciliation Act of 1981, revised the triggers for the Extended Benefit (EB) program to make them more difficult to achieve. The National trigger was eliminated and the State triggers were increased from 4.0% IUR and 120% of average IURs in the preceding 2 years OR 5.0% IUR at State option to 5.0% + 120% factor or 6.0%. No permanent standby program or lifetime reserve program has been established.

During the period 1980 - 1993, two temporary, emergency programs have been enacted: the Federal Supplemental Unemployment Compensation Program (FSC) came into being with P.L. 97-248, the Tax Equity and Fiscal Responsibility Act of 1982, and was in place from September 1, 1982 through March 31, 1985 (this program was modified eight times during this time period); The Emergency Unemployment Compensation program (EUC) came into being with P.L. 102-164, the Emergency Unemployment Compensation Act of 1991, and has been in place since November 17, 1991 (This program has been modified four times to date).

D. Program for displaced homemakers.

No action has been taken on this recommendation.

E. Recommendations to States (not Federal law changes).

The Commissions recommendations presented a number of recommendations for State action. Action on these recommendations varies by State.

F. Extend and maintain coverage.

No action has been taken on these recommendations.

V. Initiatives for income maintenance of the longer-term unemployed.

A. Increase in CETA job slots.

The Public Service Employment program under CETA has been eliminated.

B. Financing of unemployment compensation benefits for CETA workers.

The proposal to repeal funding of UI benefits for CETA PSE workers from general revenues was not enacted.

C. Unemployment assistance.

No action has been taken on this recommendation.

VI. More efficient administration.

A. Permit U.S.Treasury Department to delegate State collection of FUTA taxes.

No action has been taken on this recommendation.

B. Allocate additional Federal funds to improve techniques and develop special procedures for detection of fraud, error, and tax delinquency.

A nationwide program of Benefit Quality Control is now in place; a similar program for Revenue Quality Control has been developed, tested, and will be mandated during the next few months.

C. Require quarterly wage reporting to assist crossmatching and prompt payment of benefits.

P.L. 98-369, the Deficit Reduction Act of 1984, required that all States have in effect a requirement that employers make quarterly reports of wages to a State agency (which might be the agency administering the State UI law) as a condition for compliance with Federally aided assistance programs.

D. Strengthen appeals process.

Modification of the appeals process is a product of State law and administrative procedures. Actions in this area vary by State.

E. Strengthen and implement procedures aimed at speeding the processing of interstate claims and appeals.

The INTERNET automated system has been implemented to improve the interstate claims processing.

F. Increased Grants-to-States for administrative financing for unemployment compensation and employment service.

Administrative Financing reforms have met some of the goals of the Commission: establishment of the "true contingency" fund, flexibility for carryover and retention of contingency funds, and the permanent availability of Reed Act funds (P.L. 101-508, the Omnibus Budget Reconciliation act of 1990). No action has been taken on full funding of the cost model.

G. Strengthening and improving the United States Employment Service (USES).

The Wagner-Peyser Act was amended by P.L. 97-404, the Job Training Partnership Act, to put in place a modified block grant program for the Employment Service. No specific action has been taken on the Commission recommendations for increased USES staffing.

H. Administrative costs of non-FUTA-subject employers (State and local government and nonprofit employers).

No action has been taken on this recommendation.

VII. Special employee protection programs (Trade Adjustment Act, etc.).

A. Special Federal programs should not be paid concurrently or be a supplement to UI.

This procedure is currently in place.

B. Total costs of such programs should be paid from general revenues.

This procedure is currently in place.

C. Amount and duration of special program benefits should not be considered a precedent or a pattern for UI.

No such precedents or patterns have emerged.

APPENDIX B
REGRESSION RESULTS
DEPENDENT = ln INSURED UNEMPLOYMENT / TOTAL UNEMPLOYMENT
1979-1991, Unweighted

	(One)			(Two)		
LEGAL VARIABLES						
Application rates				9.607	(18.8)	**
Disqualification Rates				-0.511	(6.6)	**
Minimum Earnings				-5.87E-05	(5.3)	**
COPE				0.117	(4.9)	**
Durational, Refusing Work				-0.066	(4.1)	**
Timely payments				-0.658	(3.9)	**
Exhaustion Rate				-0.068	(2.8)	**
Maximum benefit weeks				0.011	(2.7)	**
Durational, Discharge				0.044	(2.6)	**
Durational, Quitting				-0.056	(2.0)	**
Right to Work State				--		
Extended Benefits				--		
Earnings for max. ben.				--		
ECONOMIC VARIABLES						
Job losers				1.059	(8.1)	**
Manufacturing				-0.700	(6.2)	**
Unionization				0.601	(4.1)	**
Unemployment rate				-2.387	(3.7)	**
Short duration				-0.070	(3.1)	**
Percent teenage				-2.441	(2.9)	**
Percent part-time				1.009	(2.3)	**
Long duration				--		
Percent female				--		
Percent Black				--		
DUMMY FOR 1983 TO 1989	-0.194	(9.3)	**	-0.040	(3.0)	**
RUSTBELT	0.172	(5.9)	**	--		
BREADBASKET	--			--		
SOUTH ATLANTIC	-0.188	(5.6)	**	-0.128	(4.4)	**
COTTONBELT	-0.212	(6.3)	**	0.044	(2.6)	**
CONSTANT	-1.004	(41.0)	**	-1.265	(4.5)	**
R SQUARED		0.317		0.828		
ADJ. R SQUARED		0.312		0.820		
F =		57.43		101.22		
Sig. F =		0.0000		0.0000		

Notes: -- indicates insignificant variables.
* indicates significance of .05 <= x <.01
** indicates significance of .01 or greater.
Absolute value of t-statistics in parentheses.

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APPENDIX B
REGRESSION RESULTS
DEPENDENT = ln APPLICATIONS / TOTAL UNEMPLOYMENT
1979-1991, Unweighted

	(One)			(Two)		
LEGAL VARIABLES						
Wage Replacement Rate				1.483	(5.5)	**
Benefit Taxation				-8.611	(5.0)	**
Benefit Weeks Received				-0.022	(3.2)	**
Earnings for max. ben.				-7.8E-06	(2.0)	*
Durational, Discharge				-0.062	(2.0)	*
Right to Work State				--		
Waiting Week				--		
Disqualification Rates				--		
Durational, Refusing Work				--		
Durational, Quitting				--		
Timely payments				--		
Minimum Earnings				--		
COPE				--		
Earnings for Max Ben, Max Wks				--		
ECONOMIC VARIABLES						
Manufacturing				2.141	(11.2)	**
Job losers				2.066	(9.3)	**
Unemployment rate				-6.590	(5.9)	**
Long duration				-1.278	(4.7)	**
Unionization				1.065	(4.0)	**
Percent Black				0.888	(3.3)	**
Percent teenage				-4.867	(3.2)	**
Percent part-time				2.450	(3.1)	**
Percent female				--		
Short duration				--		
DUMMY FOR 1983 TO 1989	-0.239	(9.2)	**	-0.133	(5.6)	**
RUSTBELT	0.170	(4.7)	**	-0.241	(5.6)	**
BREADBASKET	--			-0.249	(5.7)	**
SOUTH ATLANTIC	--			-0.215	(4.0)	**
COTTONBELT	-0.101	(2.4)	**	-0.231	(4.9)	**
CONSTANT	-2.892	(94.8)	**	-4.325	(8.7)	**
R SQUARED		0.184		0.582		
ADJ. R SQUARED		0.178		0.561		
F =		27.94		28.28		
Sig. F =		0.0000		0.0000		

Notes: -- indicates insignificant variables.
* indicates significance of .05 <= x <.01
** indicates significance of .01 or greater.
Absolute value of t-statistics in parentheses.

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