

# The Economy and Unemployment Insurance: A Prime Automatic Stabilizer in Need of Reform?

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# Outline

- **The Economy and Economic Policy**
  - Efficiency – Best combination of factors of production
  - Stabilization – Minimal changes in prices and unemployment
  - Equity – Less poverty and growth in real median wages
- **Unemployment Insurance (UI) – A prime automatic stabilizer in need of reform**
- **Prospects for Unemployment Insurance (UI)**
  - UI Trust Fund Solvency?
  - Rapid Reemployment of UI Claimants?
  - UI Modernization Act?

# The Bottom Line

- The Economy is a mess and it will take some time to correct it.
- The Unemployment Insurance (UI) system has been declining. Many state UI programs need more unemployment tax revenue and less benefit outlays.
- Some states would benefit by raising the taxable wage base.
- All states would benefit from an aggressive federal reemployment program for UI claimants that reduces duration on UI. This is what I want to stress!

# We Have Exceptional Factors of Production: Land, Labor, Capital, and Entrepreneurial Ability

- Land – natural resources.
- Labor – Could be more educated and trained, but immigration of workers with knowledge, skills, and abilities is a key to our future.
- Capital – We must stabilize and restore global capital markets.
- Entrepreneurial Ability – We have it and our economy rewards it.

# Four Recessions in the Past 35 Years and Probably one in 2008

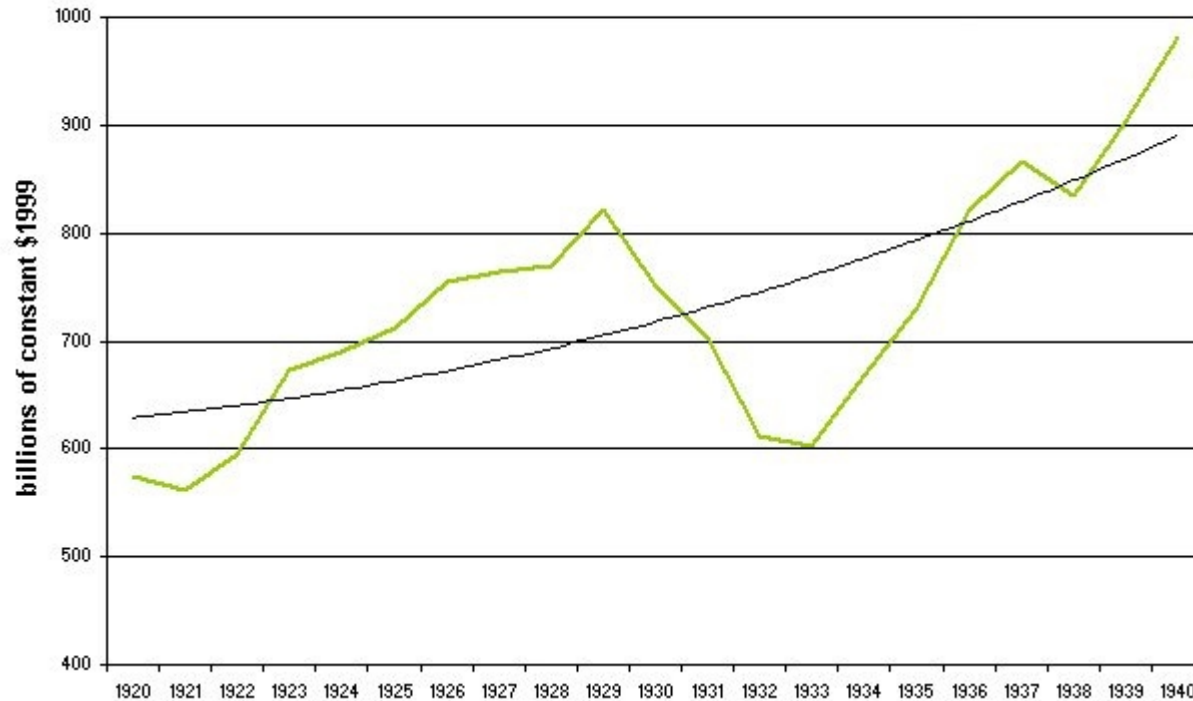
- 1973-1975 – OPEC quadrupled oil prices and “guns and butter” policies led to stagflation
- 1980-1982 – Tight monetary policy to control inflation and Iranian Revolution led to oil price increases and unemployment
- 1990-1991 – Stock market crash in 1987; 1990 Gulf War; Oil price spike; inflation, but less than in 1970s.
- 2001-2003 – Bursting of dot.com bubble, 9/11 attacks, and accounting scandals
- 2008-2009? – Real estate bubble burst; stock market crash; credit freeze; financial sector failures; and massive federal rescue.

# The Current Situation

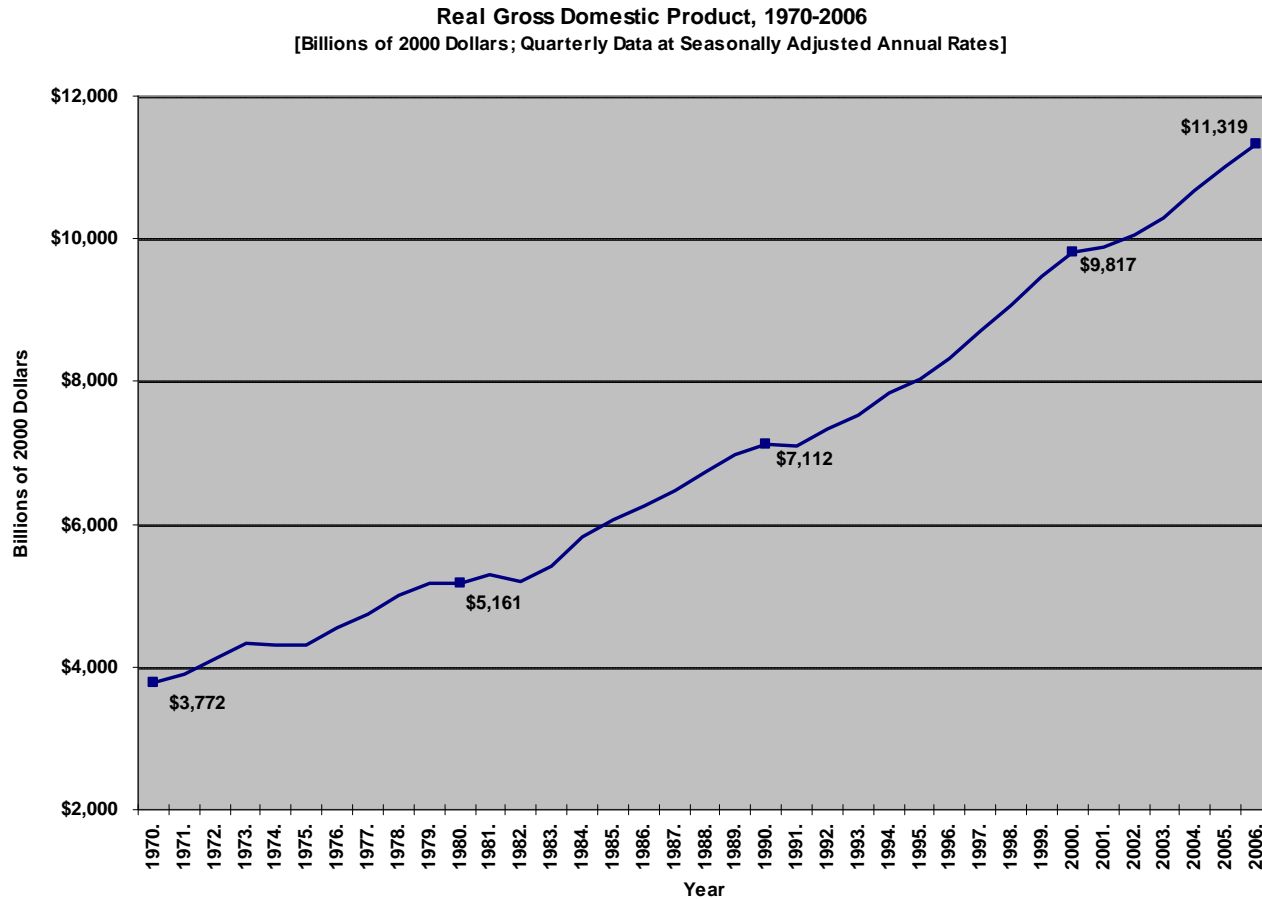
- Unemployment rate is 6.5%
- Unemployed are nearly 10.1 million.
- Employment is nearly 145 million.
- Lost 1.2 million jobs this year
- About 38% of unemployed are receiving UI
- Housing values down 1/3
- Stock Market down 1/3
- Some 4 million homes approaching or in foreclosure
- Public debt heading toward half of real GDP

# The Great Depression – Real GDP Dropped 25 Percent from 1929 to 1933, but Grew at a 1.7% Average Annual Rate from 1920 to 1940

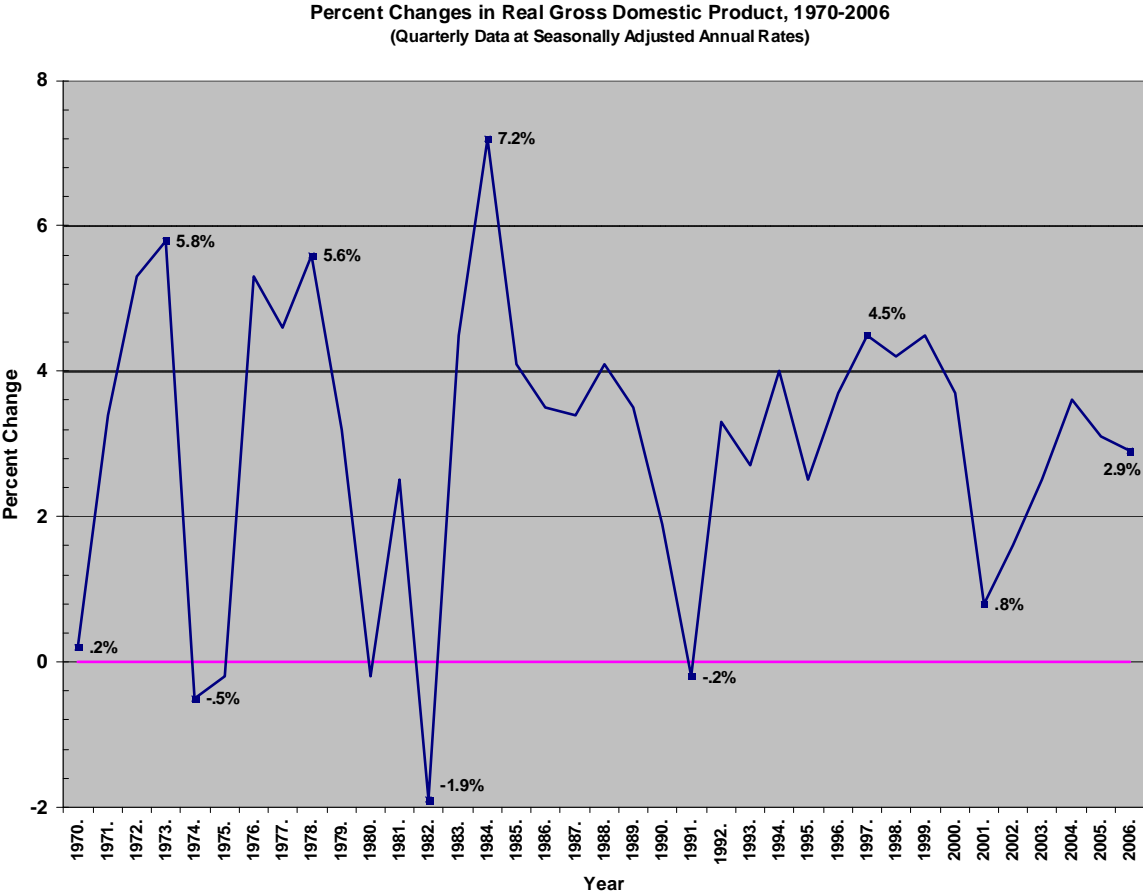
## GDP 1920-1940



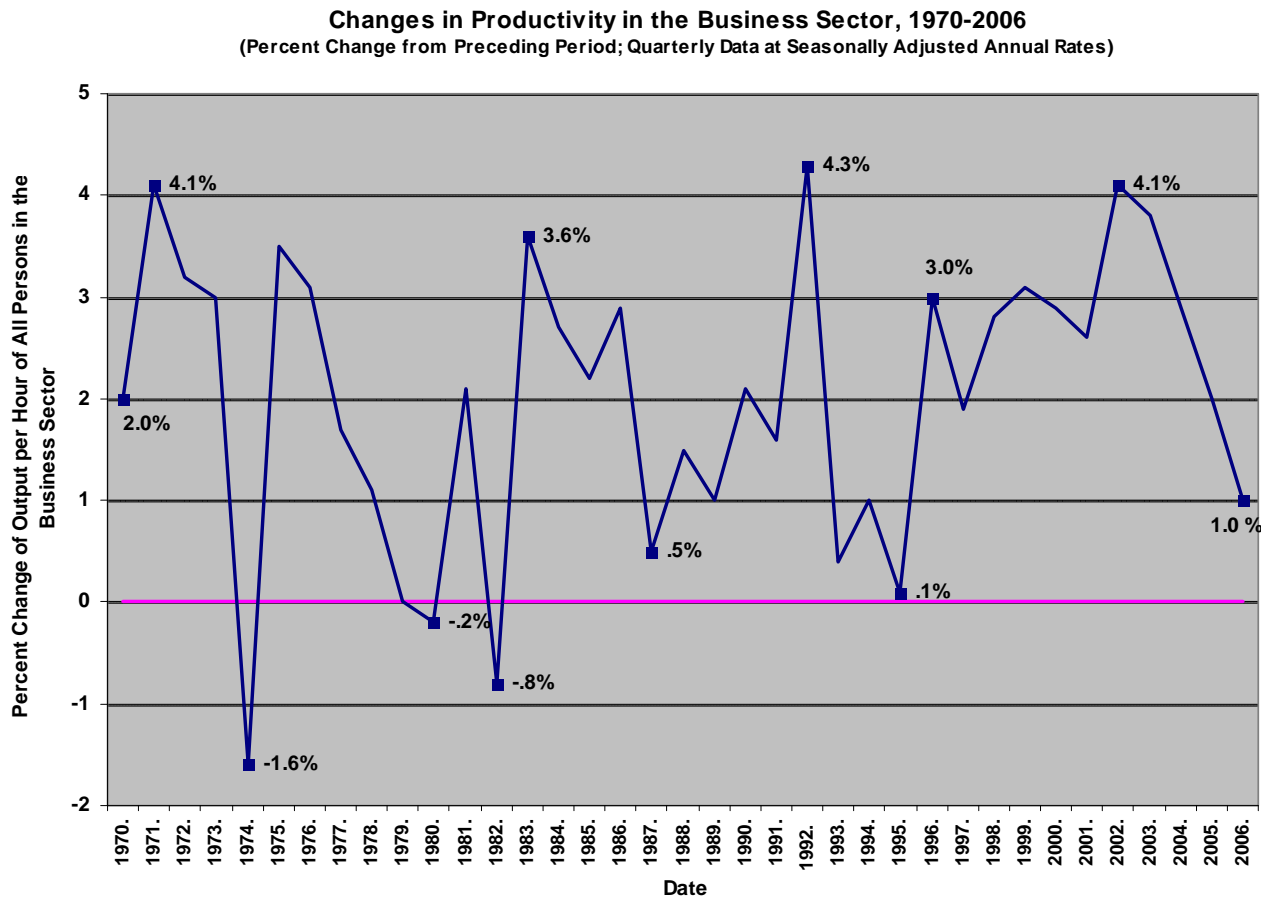
# Real GDP Grew at a 2.9% Average Annual Rate and Tripled Since 1970.



# Real GDP Rarely Dropped During the Last 37 Years

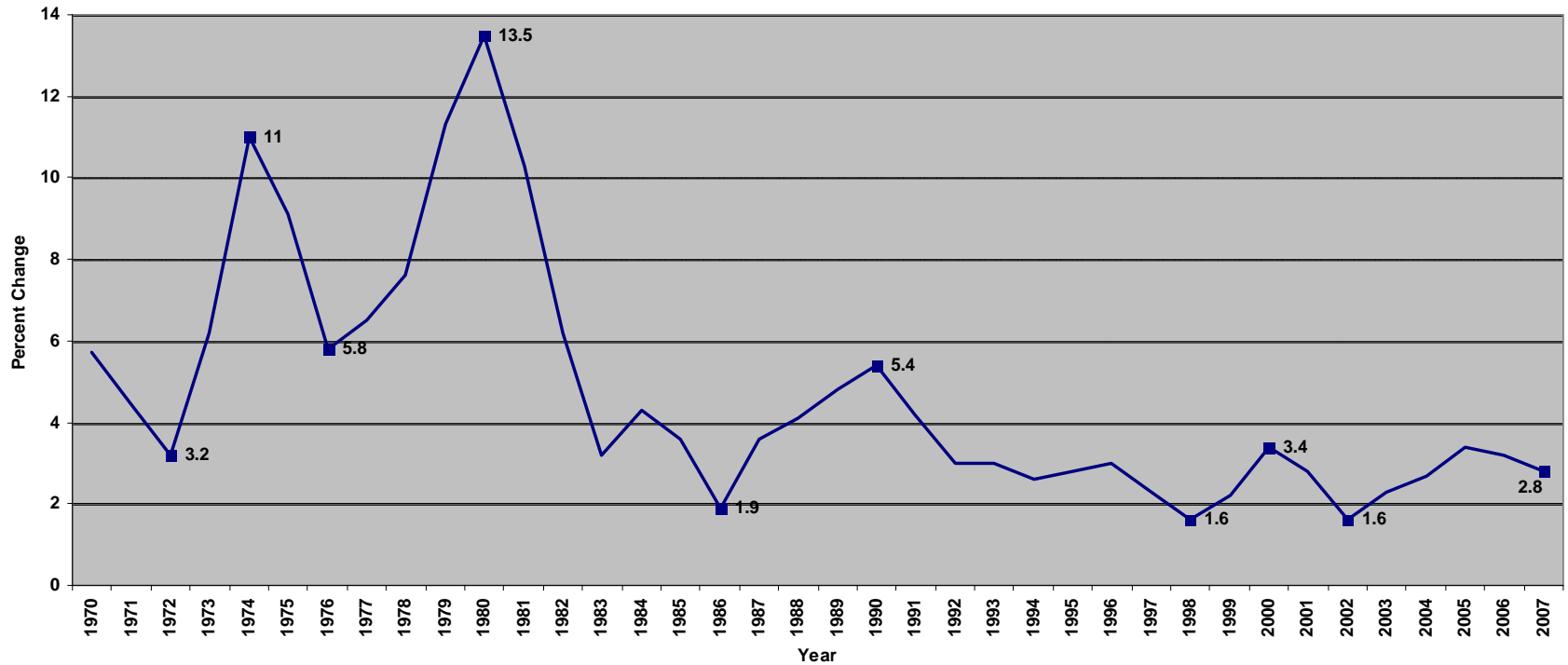


# Efficiency: Rising Productivity Has Driven Economic Growth

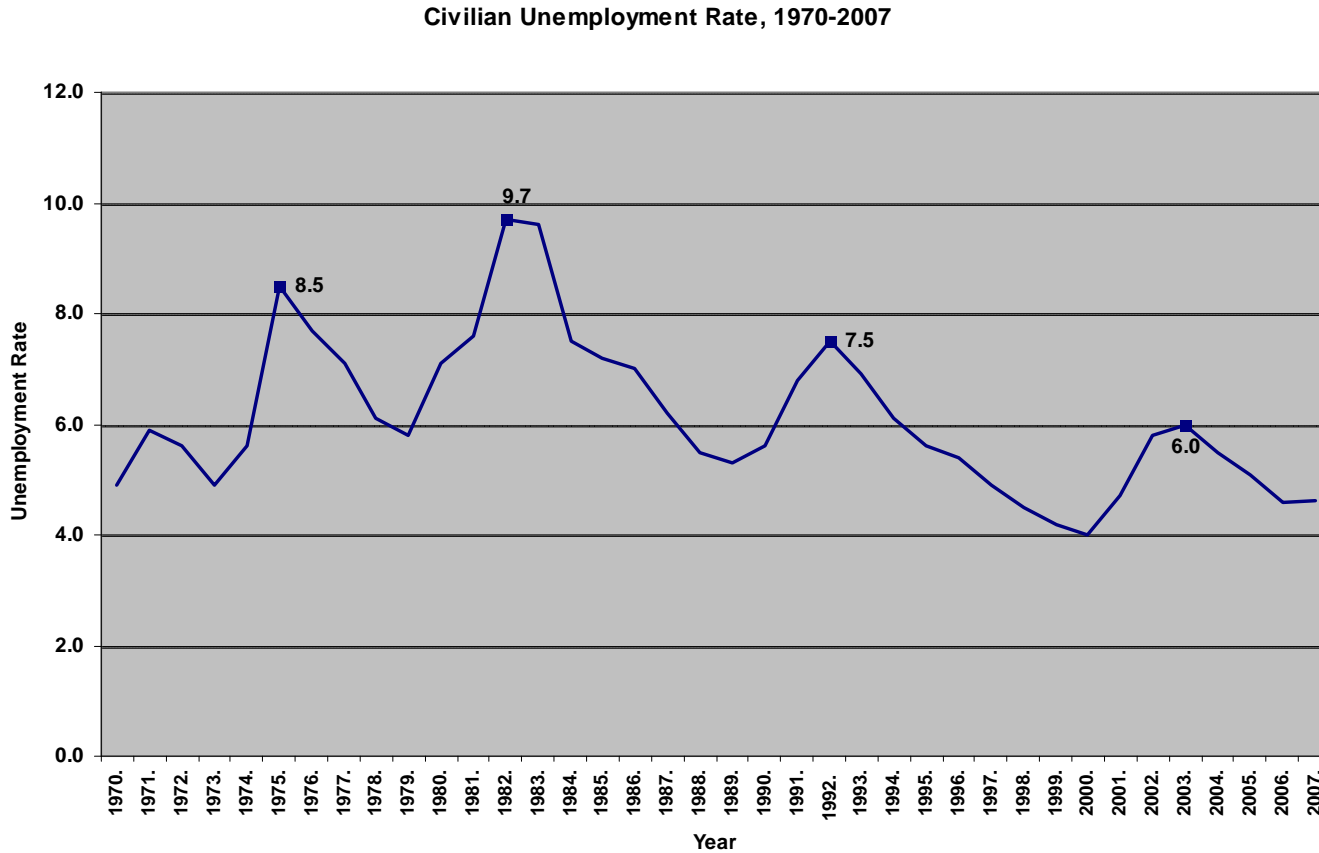


# Stabilization: We Stabilized and Lowered the Rate of Inflation

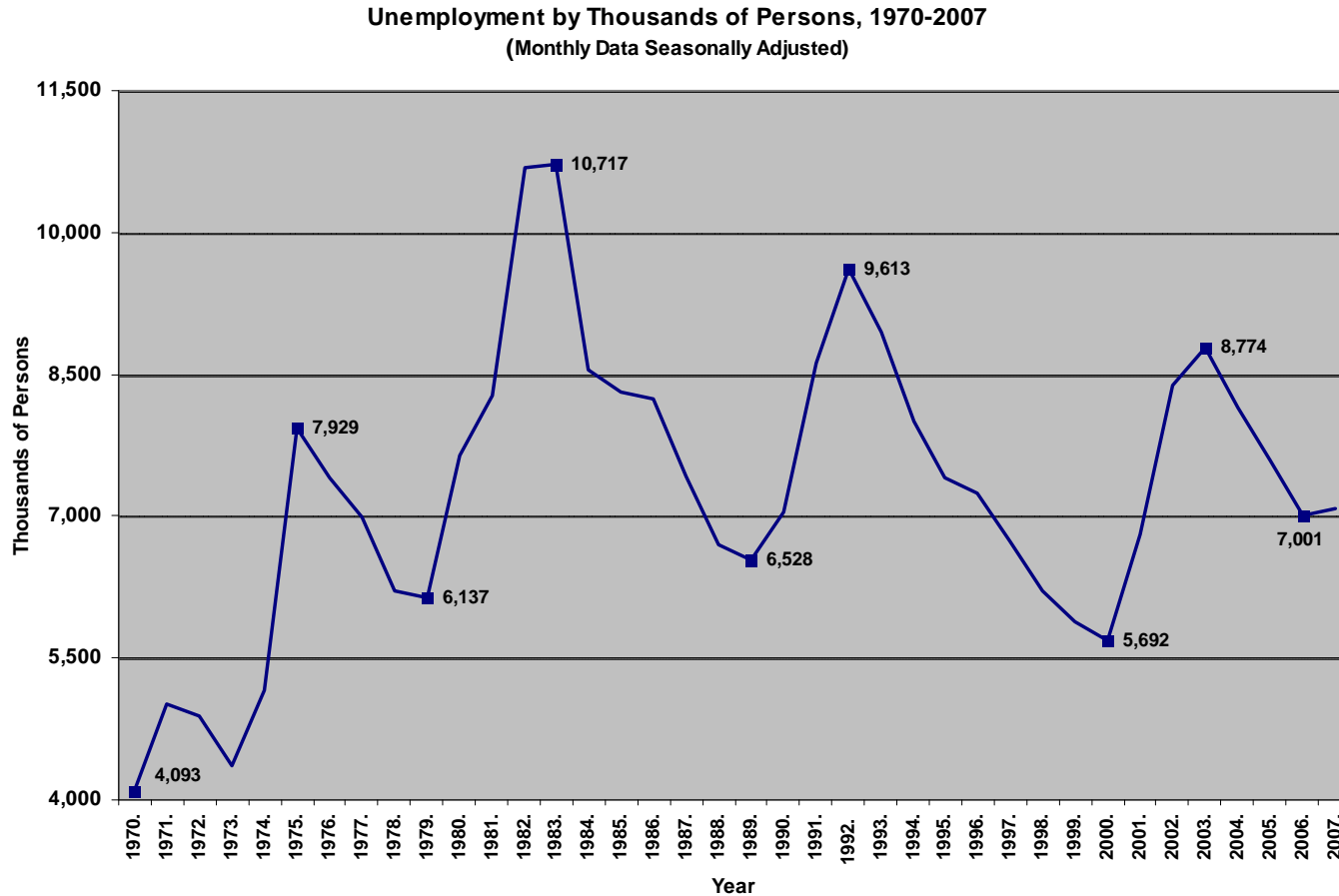
Annual Percent Change in Price Levels, 1970-2007  
[Consumer Price Index, All Urban Consumers (CPI-U)]



# Stabilization: We Stabilized and Lowered The Total Unemployment Rate

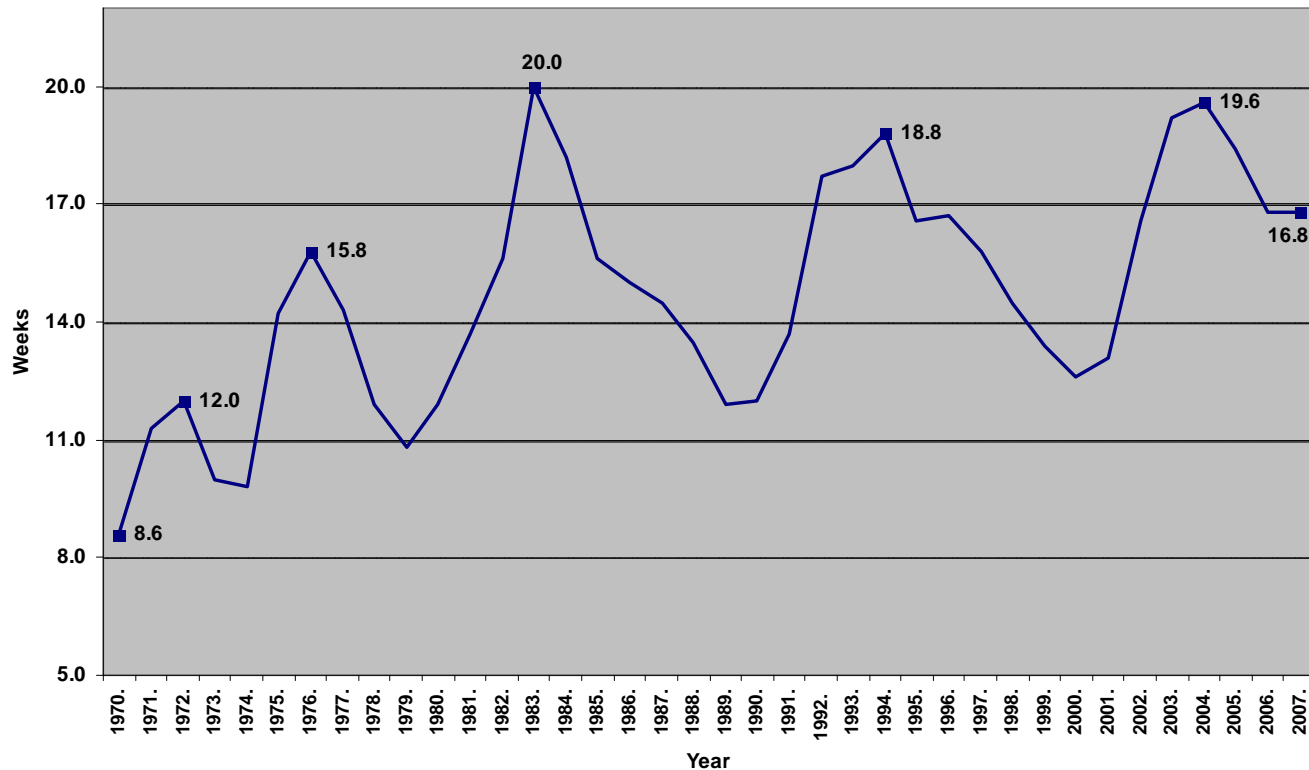


# And Unemployment Has Trended Down While the Labor Force Has Grown

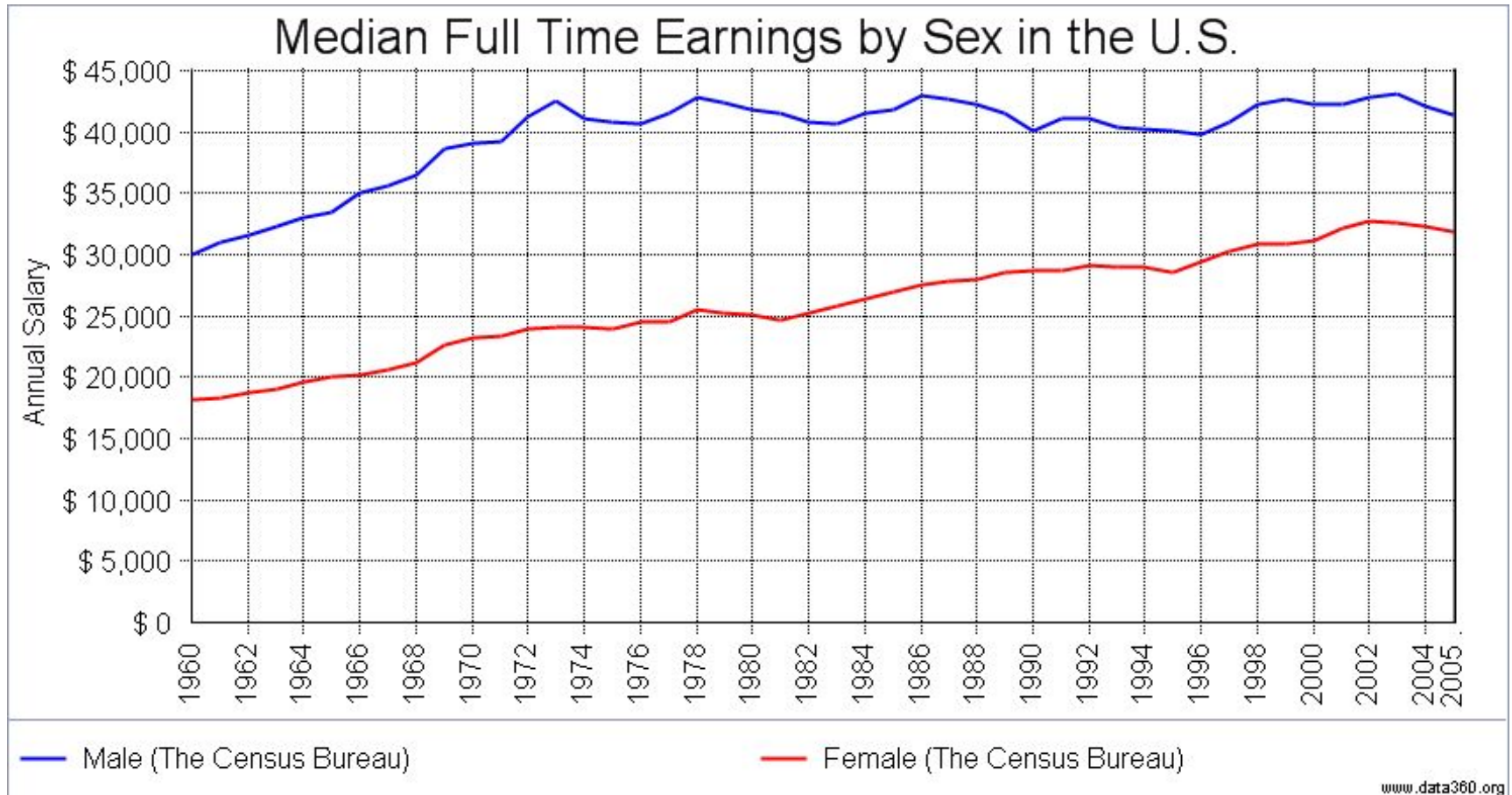


# But Average Duration of Unemployment Has Trended Up

Average Duration of Unemployment, 1970-2007  
(Measured in Weeks; Monthly Data Seasonally Adjusted)

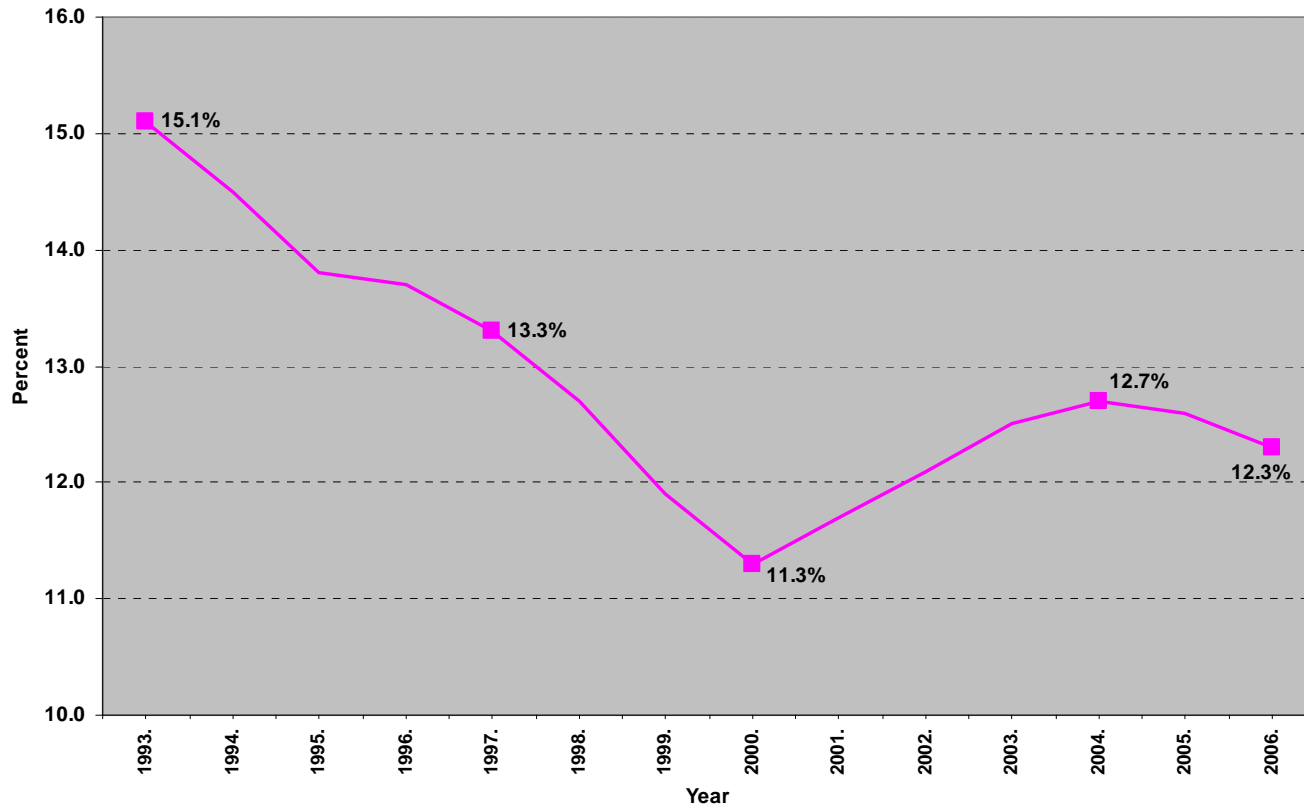


# Median Earnings of Men and Women Barely Changed Since 1973



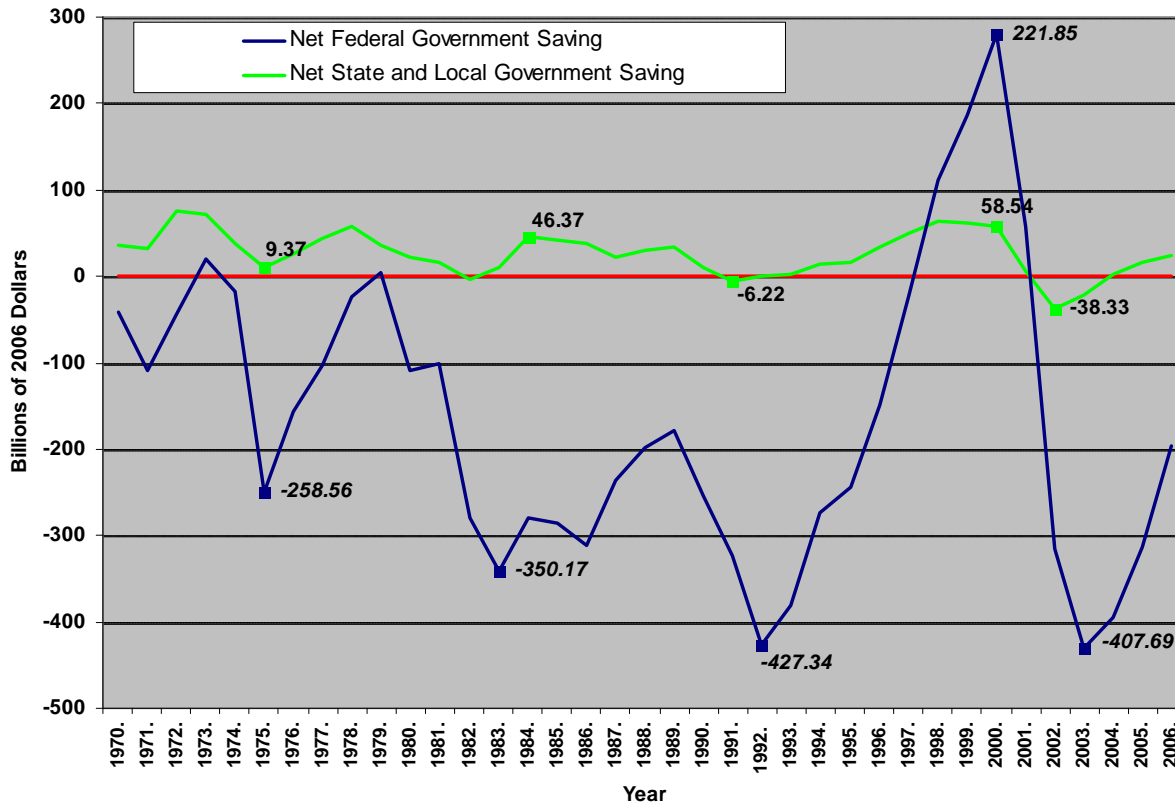
# Equity: The Official Poverty Rate Rose after 2000

Percent of Persons Below Poverty Level (in 2006 Dollars), 1993-2006

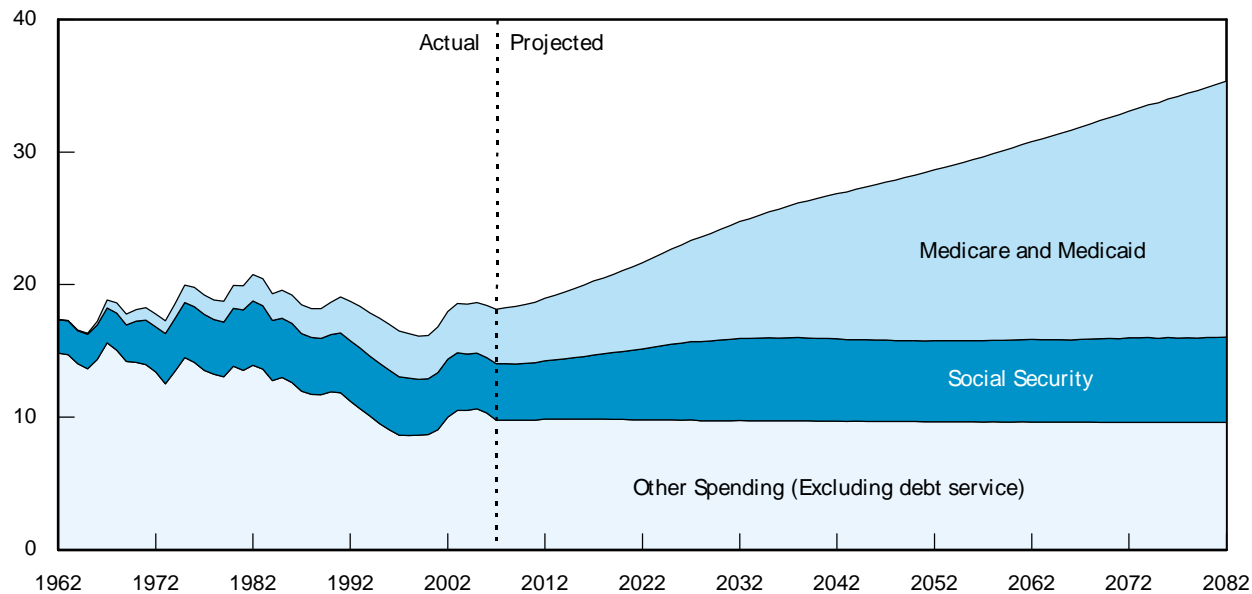


# Chronic Federal Budget Deficits Have Reappeared

**Net Government Saving: Federal vs. State and Local, 1970-2006**  
 (Billions of 2006 Dollars; Quarterly Data at Seasonally Adjusted Annual Rates)

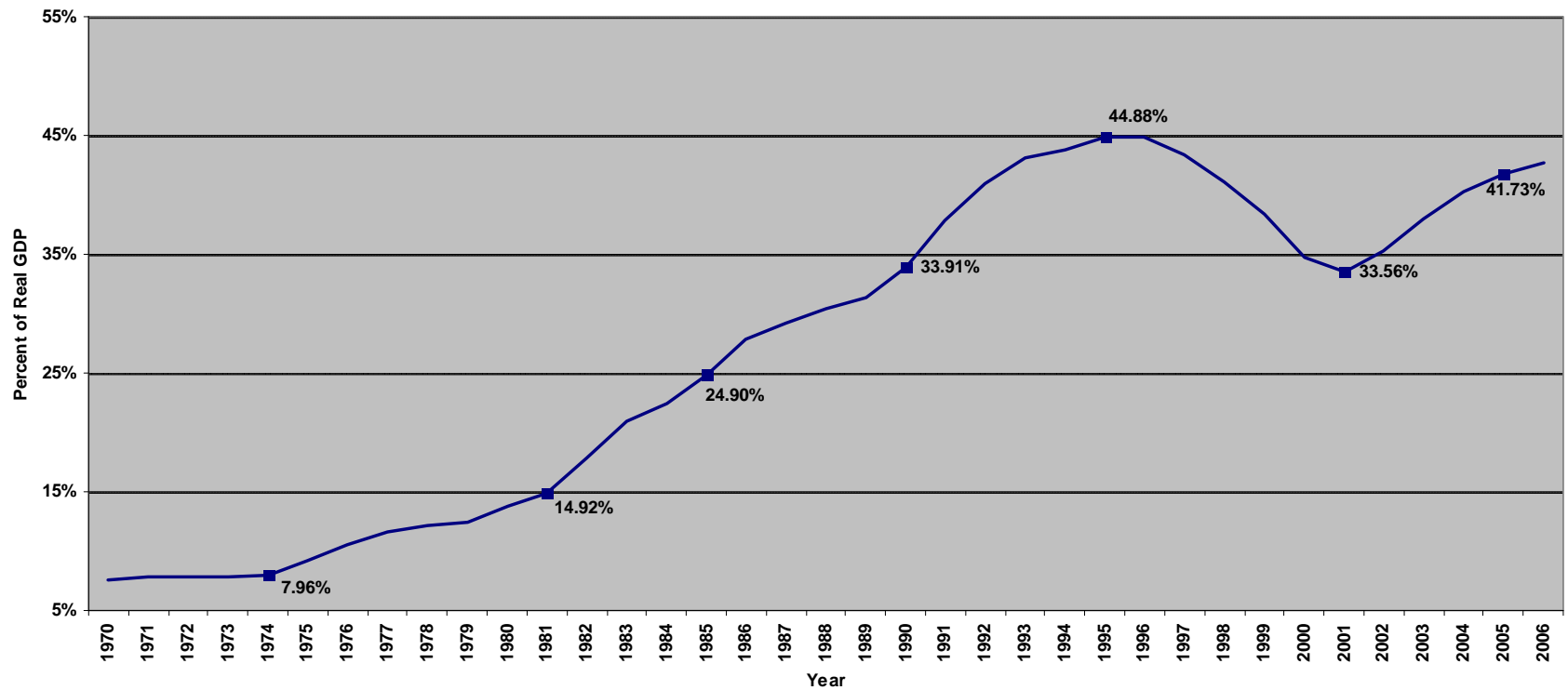


# Projected Federal Spending As A Percent of GDP Will Skyrocket Because of Growth in Health Care Costs



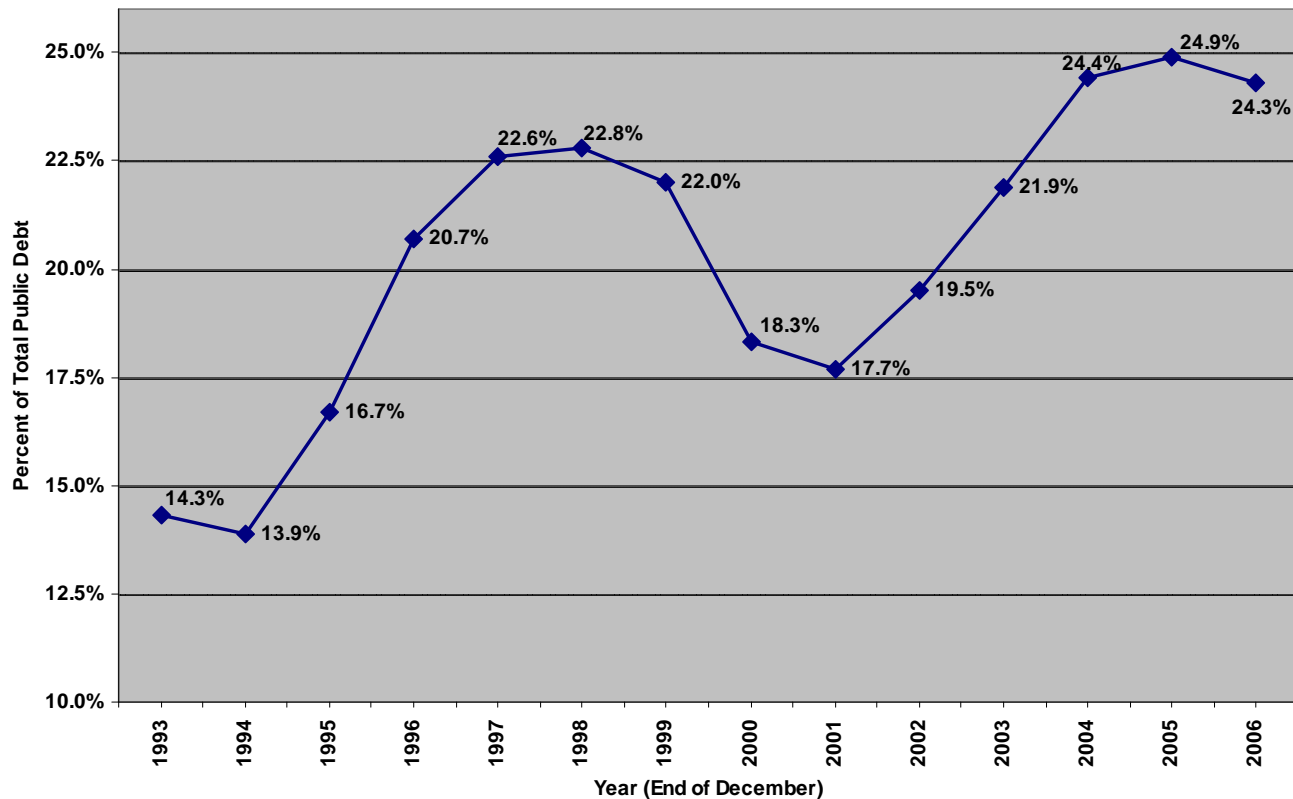
# Public Debt As A Percent of GDP Is Rising Again

Public Debt as a Percent of Real Gross Domestic Product, 1970-2006

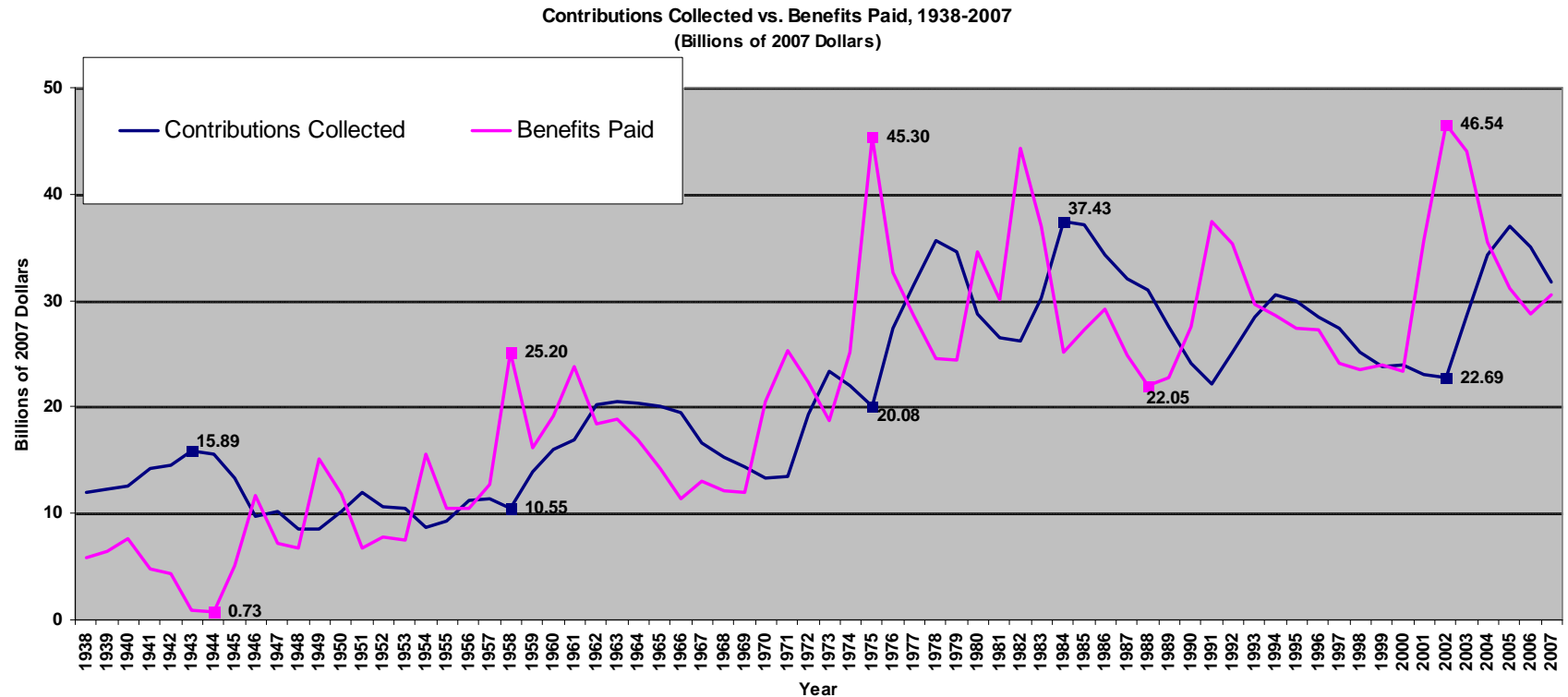


# As Is the Share of Public Debt Held by Foreign Entities

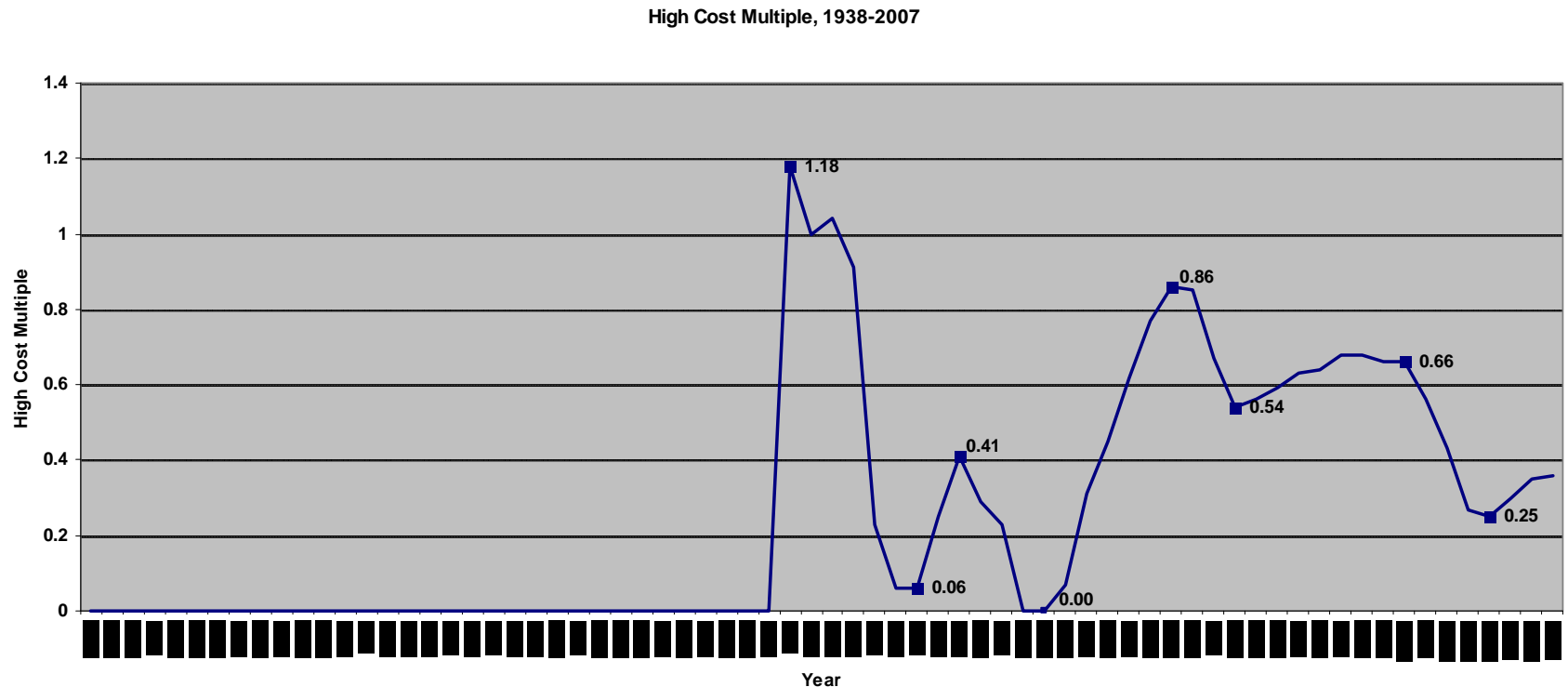
Percent of Total Public Debt Held by Foreign and International Entities, 1993-2006  
(End of December)



# In the Middle of this Mess Stands Unemployment Insurance – A Prime Automatic Stabilizer

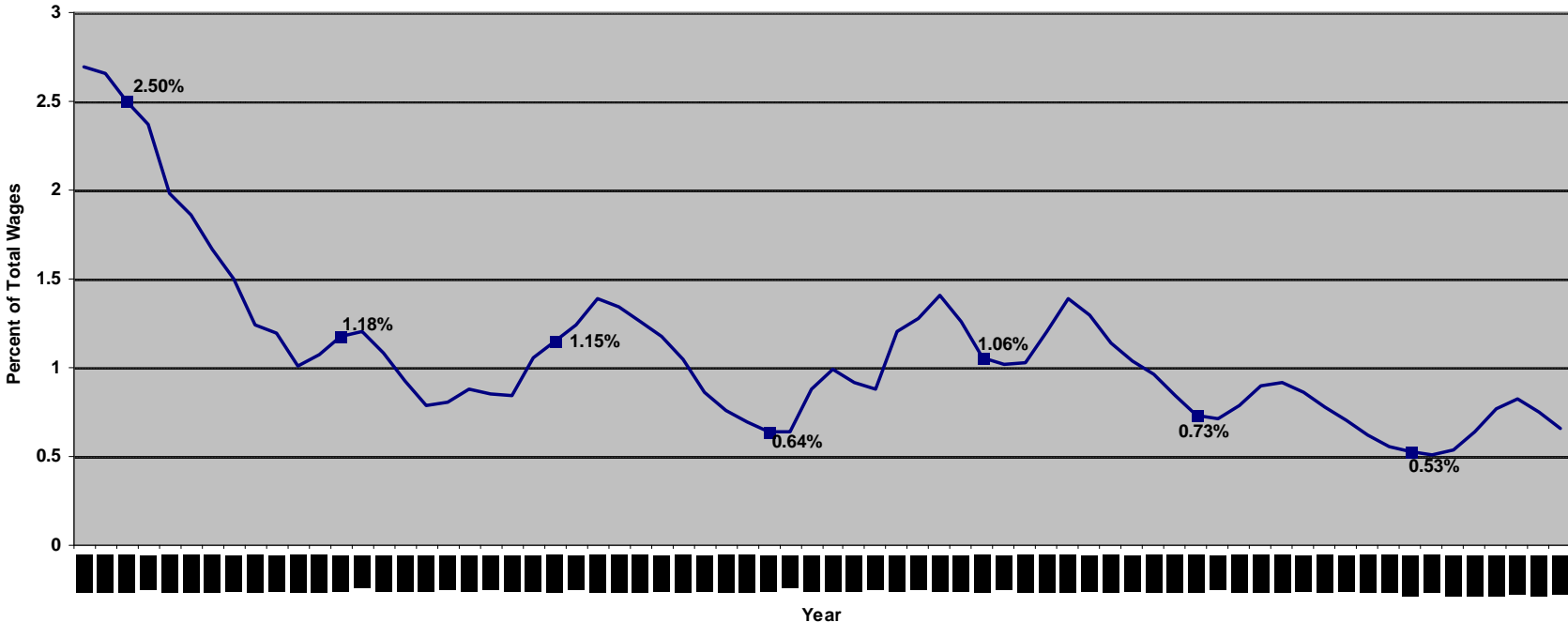


# But the Solvency of State Programs is in Question



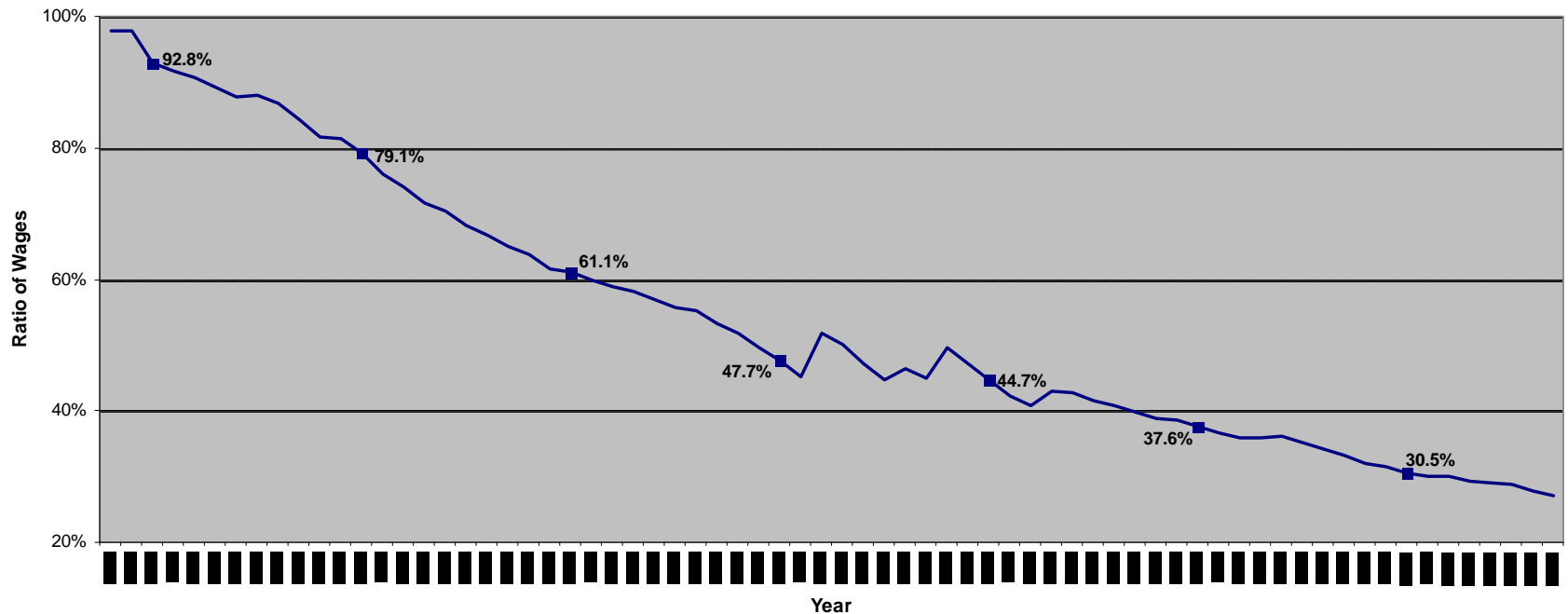
# Why? The Average Employer Tax Rate is Historically Low

Average Employer Rate as a Percent of Total Wages, 1938-2007



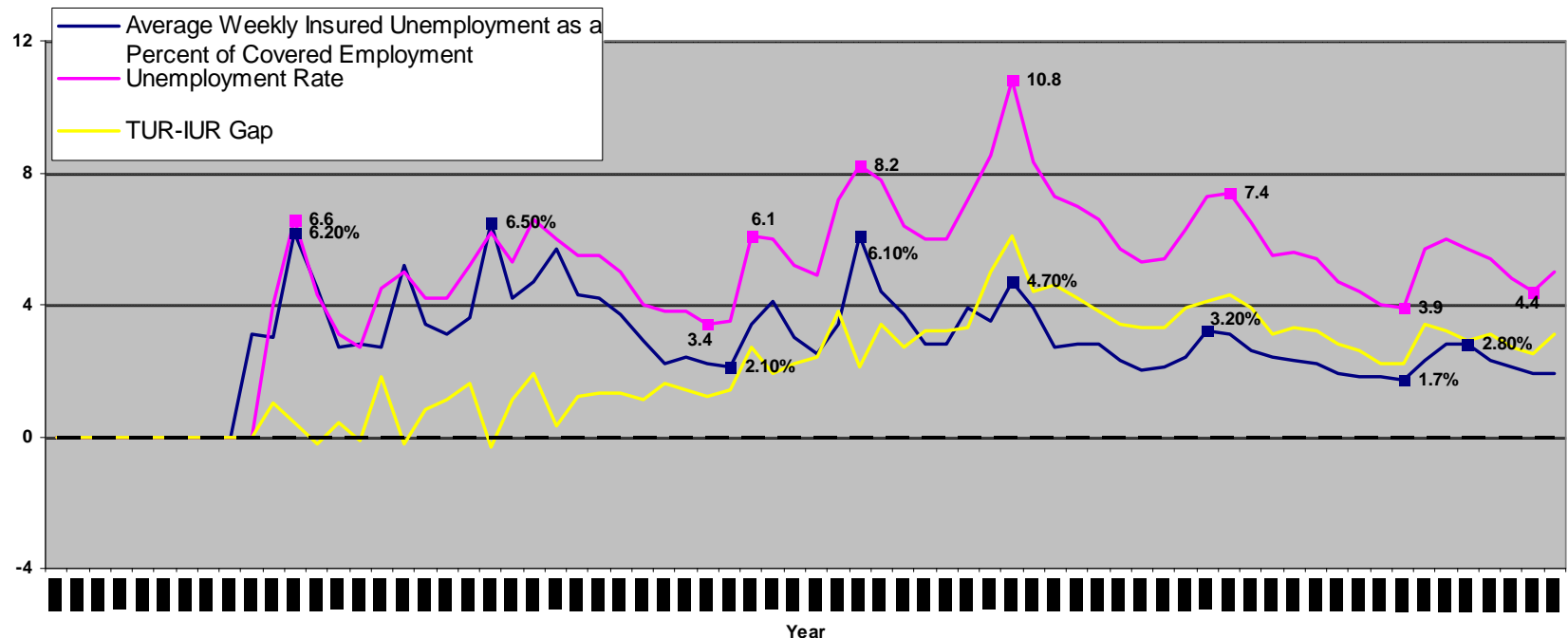
# A Result of Eroding Taxable Wage Bases

Taxable Wages as a Percent of Total Wages, 1938-2007  
(The Taxable Wages Paid in Covered Employment Divided by the Total Wages Paid for the Same Period)



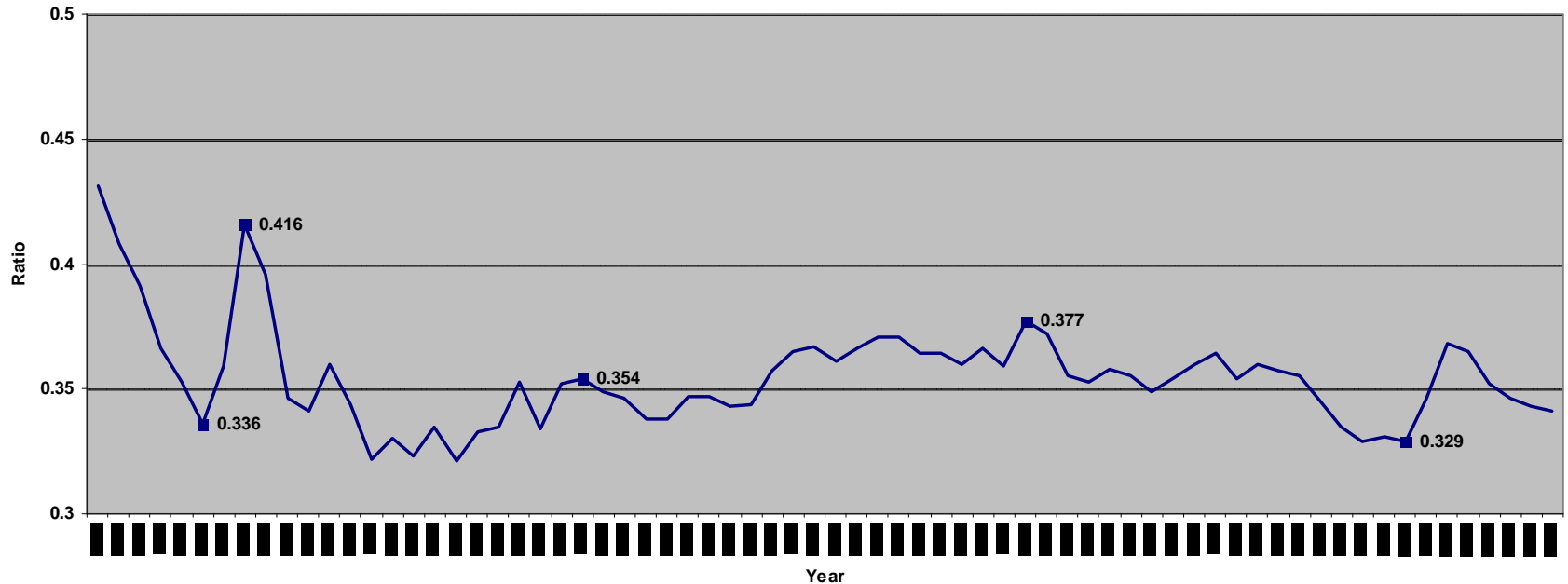
# But the Insured Unemployment Has Trended Down with the Total Unemployment Rate and A Gap Opened in the Late 1960s

Average Weekly Insured Unemployed as a Percent of Covered Employment vs. Unemployment Rate, 1938-2007  
(Unemployment Rate as of December)



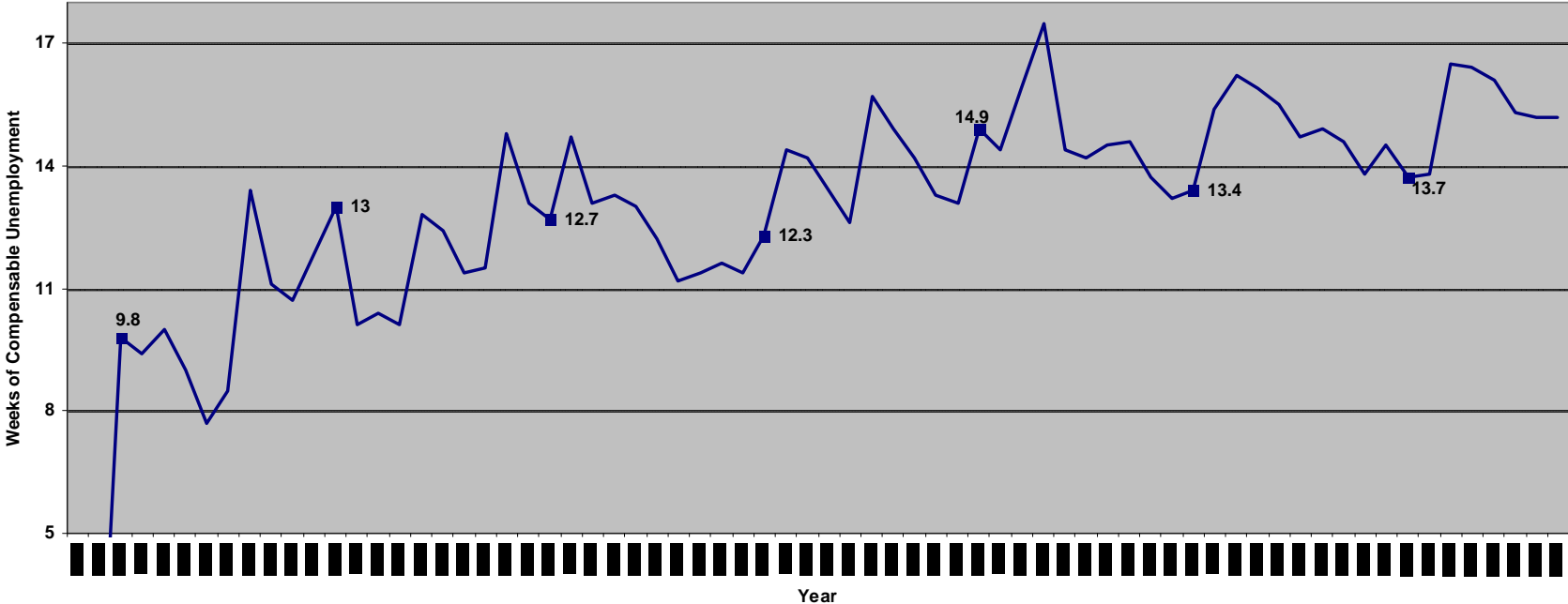
# Average Weekly Benefits Have Been Relatively Constant

Ratio of Average Weekly Benefit Amount to Average Weekly Total Wage, 1938-2007



# But Average Duration on UI Has Been Climbing

Average Actual Duration of Compensable Unemployment, 1938-2007  
(In Weeks)



# So What Can States Do?

- Solvency problems likely will lead states to look for ways to increase unemployment tax revenue and cut unemployment benefit outlays.
- In some states, raising taxable wage bases, while perhaps reducing tax rates somewhat, could stop the erosion of the tax base and the effective tax rate, and raise tax revenue.
- Focusing on rapid reemployment of UI Claimants could reduce the duration of unemployment and cut benefit outlays.

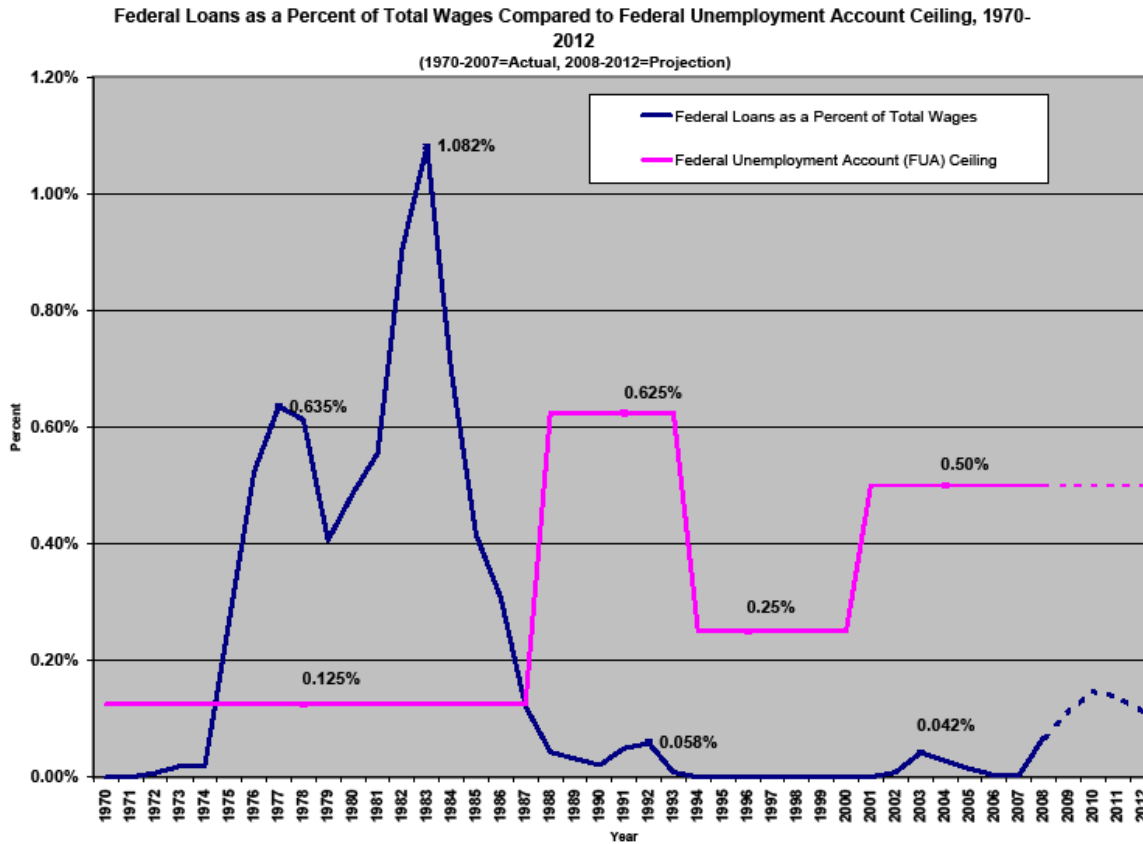
# What Should States Do?

- States will need to negotiate with employer and worker groups to raise tax revenue and cut benefit outlays.
- Benefit outlays can be cut by emphasizing rapid reemployment. Federal funding for reemployment services to UI claimants would go a long way toward this end.
- If the average weekly benefit amount is \$300, the average duration on UI is 15 weeks, there are 3 million claimants on average in a year and reemployment services can reduce the duration of unemployment by one week (as found by research evidence), this will save over \$3 billion in benefit outlays.

# What Else Can or Might Be Done?

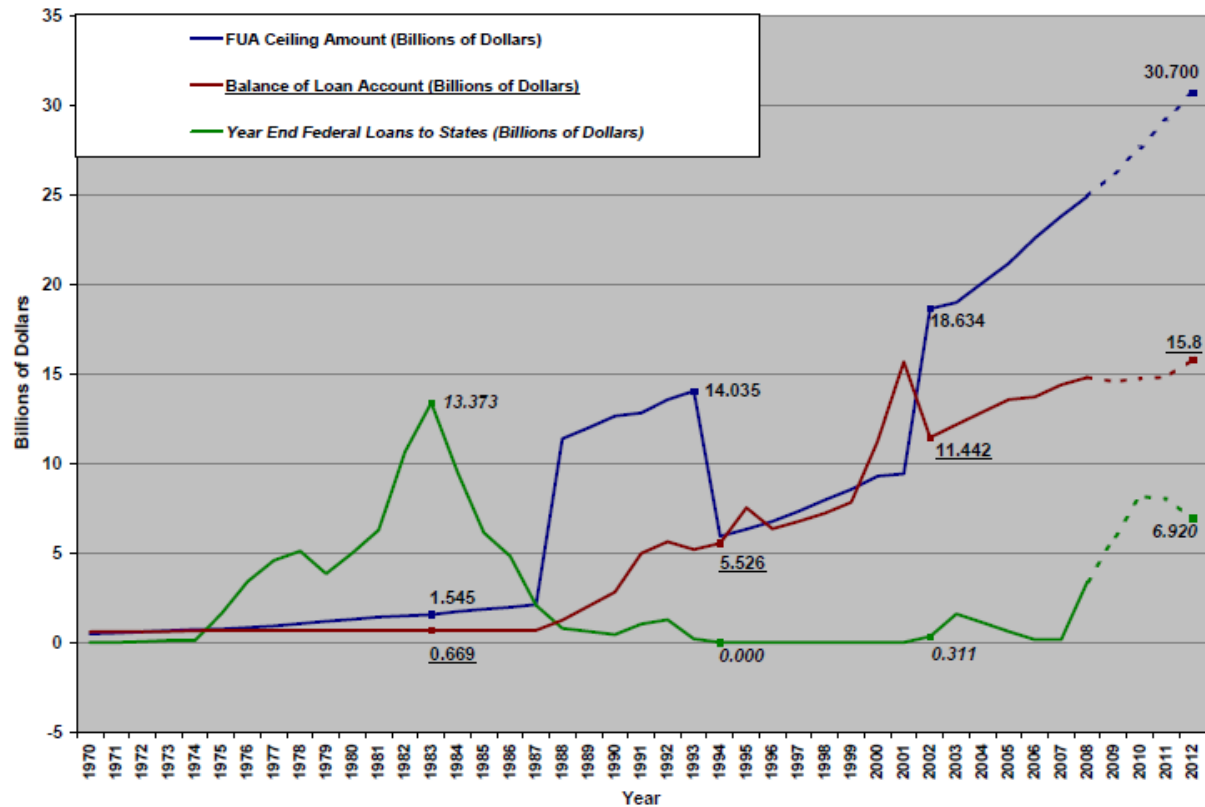
- NASWA has proposed a \$6 billion Special Reed Act distribution to help states improve solvency and weather the storm in 2009.
- There are more than enough funds in the Federal Unemployment Account to cover this cost.
- Please see the next two charts.

# Federal Loan Account Ceiling, Balances and Loans



# Room for A \$6 Billion Special Reed Act Distribution

FUA Ceiling Amount, FUA Loans to States and Balance of FUA Account, 1970-2012  
 (Billions of Dollars; 1970-2007=Actual, 2008-2012=Projected)



# What Else?

- The McDermott Unemployment Insurance Modernization Act, which provides Reed Act distributions conditioned on whether a state has certain eligibility provisions
- Some combination of the McDermott bill and unconditional Reed Act distributions plus administrative finance reform

# What Else?

- Others will discuss the McDermott bill and UI administrative financing reform.
- So, I will stop and try to answer questions if there is time.
- Thank you.