

## STRENGTHENED UNEMPLOYMENT INSURANCE OFFERS BEST HELP FOR JOBLESS & ECONOMY, REPORT ADVISES

### Message to Congress: Beware of untested ideas



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As the most recent government data show, job growth is continuing to trend downward as unemployment edges higher. In this climate, Washington lawmakers are turning more attention to programs and proposals designed to help workers increasingly caught between the rock of protracted unemployment and the hard place of new jobs that pay less than their old ones.

Among the options before Congress are bills in both Houses to modernize unemployment insurance (UI) and a Senate bill to reauthorize the Trade Adjustment Assistance program (TAA) that would expand wage-loss insurance for workers uprooted by international trade. A plan presented in congressional hearings in September by Jeffrey Kling of the Brookings Institution and the Hamilton Project has as a central feature replacement of the current UI system with individual accounts for each worker, to create a kind of personal rainy day fund that could be drawn on during periods of unemployment. With the money saved by eliminating the UI system, Kling would fund wage-loss insurance, shifting payments from the unemployed to the employed

A new report issued today by the Economic Policy Institute's Agenda for Shared Prosperity analyzes the strengths and weaknesses of the current UI program and the Trade Adjustment Assistance program (TAA) in helping workers harmed by the loss of jobs through globalization. The report also focuses in detail on the Kling proposal's combination of wage insurance, temporary earnings replacement accounts (TERAs), and low-wage co-insurance for the lowest paid workers.

**[“Strengthening Unemployment Insurance: A critique of individual accounts and wage-loss insurance,”](#)** by Wayne Vroman, an economist at The Urban Institute, draws a number of important conclusions for the ongoing debate.

He identifies key strengths of the current UI system as well as weaknesses in need of shoring up to increase the program's effectiveness. Among its strengths he notes that:

- UI gives the most help when it's most needed – in a period of economic slowdown and rising unemployment. This countercyclical feature of UI is a strong plus both for the unemployed workers who receive its benefits and for the economy, as a whole, which benefits when more people have money to spend.
- The cost of the program is low for employers. In fact, among comparable advanced countries, only two (Greece and Japan) have costs that are lower as a percentage of payroll.
- The unique financing of UI which relies upon experience rating (higher benefit payments lead to higher UI taxes) rewards employers with lower payments to past and current workers and thus promotes workforce stability and acts as a deterrent to layoffs.

As areas for improvement he cites:

- The share of unemployed workers who actually collect UI benefits is too low – less than half since 1947 except for four years of exceptionally high unemployment (1948, '61, '75 and '76). From 2000 to 2004, less than 40% of the unemployment received benefits.
- For a growing share of the unemployed, benefits run out before they become reemployed. During the '50s the share of unemployed workers who exhausted their benefits averaged 25.2%; that exhaustion rate grew to 37.6% in the seven years of the current decade. As spells of unemployment have become longer, the duration of UI coverage has not been adapted to mirror this change.

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- UI has also failed to adapt to other changes in the structure of jobs that have been well documented and are well known, such as the growth of part-time and temporary work. The failure to expand eligibility to workers in such jobs and the requirement that recipients must be seeking full-time work make many adult workers with substantial work history and experience ineligible for benefits
- Vroman disagrees with one common criticism of UI. Many UI critics claim it tends to prolong unemployment spells and increases the take-up of benefits. Vroman's summary of these disincentive effects, however, shows that both are quite small and that there is no evidence to suggest that they are becoming larger. This evidence leads him to conclude that the increasing duration of unemployment reflects changes in the labor market that are unrelated to the availability of UI benefits.

Vroman recommends that the most prudent path is to update UI to make it more responsive to the realities of today's workplace and to make it better serve those who are given short shrift by the current system – such as temporary, part-time, project, and low-wage workers who, despite a significant work history, often don't reach the eligibility bar under the current system. New approaches such as wage insurance should not be adopted without a meaningful pilot testing program to ascertain what their real effects would be on a larger scale, and such programs should not be financed in a way that would reduce the effectiveness of the core program of unemployment insurance.

Vroman's critique of the changes proposed by Kling finds that both the diagnosis and cure are flawed. Among the shortcomings he identifies are these:

- Shifting to a system based on private accounts would substitute uncertainty for the solid certainty of benefits under the current system by radically reducing the extent of risk pooling and weakening UI as a social insurance program.
- Kling's proposal introduces further uncertainty in that the three components are untested and the costs are likely to be much higher than he estimates. In addition, his assumption that the new program can be funded by squeezing the "fat" out of UI doesn't stand up to careful scrutiny. Moreover, the new costs of administering, reporting, and tracking beneficiaries as they move from job to job and state to state are likely to far exceed the administrative costs of the existing UI program.
- The countercyclical benefits to the economy under the current system would be reduced in a system based on private accounts, which would force jobless workers to borrow money when they could least afford it, rather than receiving unemployment checks automatically to tide them over rough times.

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