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Strengthening Trade Adjustment Assistance

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In 1962, when the United States was running a trade surplus, imports were barely noticeable, and manufacturing employment was increasing, Congress made a commitment to assist American workers, firms, and communities hurt by international trade, by establishing the Trade Adjustment Assistance (TAA) program. This commitment was based on an appreciation that despite their large benefits, widely distributed throughout the economy, international trade and investment could also be associated with severe economic dislocations. President John F. Kennedy best enunciated this commitment when he wrote,

> Those injured by trade competition should not be required to bear the full brunt of the impact. Rather, the burden of economic adjustment should be borne in part by the federal government.... [T]here is an obligation to render assistance to those who suffer as a result of national trade policy.[1]

More than 40 years later, with a trade deficit above 5 percent of GDP, with imports as a percent of GDP five times what they were in 1962, and with manufacturing employment falling, this commitment is more important than ever before.

The US economy is currently facing significant pressures from intensified domestic and international competition. There is no "magic bullet" to deal with the pressures from globalization. More worker training alone will not be sufficient to address the large adjustment burden placed on workers and their families. A comprehensive set of integrated efforts is necessary to help the economy adjust to the enormous pressures from globalization. These efforts should not be handouts, but rather targeted, yet flexible assistance aimed at raising productivity and enhancing US competitiveness.

The TAA for Workers, TAA for Firms, and TAA for Farmers and Fishermen programs are part of this strategy. Although the impact of globalization on the US economy calls for strengthening these programs, sound economic policies are the most important prerequisite for responding to the pressures from globalization. In that regard, TAA is a complement to trade policy, not a substitute for it.

WHY TARGETED ASSISTANCE FOR THOSE AFFECTED BY GLOBALIZATION?

Assisting workers move from declining, inefficient industries to growing, highly efficient industries, although painful to workers and their families, can contribute to increasing national productivity and raising living standards. Efforts aimed at encouraging this adjustment are central to any effort at enhancing US competitiveness.

Empirical studies suggest that the benefits of international trade to the US economy are large and widely distributed. One such study finds that international trade contributes approximately $1 trillion a year to the US economy. These benefits are five times the estimated costs, primarily from job and earnings losses, associated with trade (Bradford, Grieco, and Hufbauer 2005).

Although the costs associated with opening the economy to increased international competition are significant to those incurring them, relative to the benefits and the size of the economy, they tend to be smaller and more highly concentrated. TAA is

1. Special Message to Congress on Foreign Trade Policy, January 25, 1962. See Kennedy (1963).

Table 1 Distribution of certified petitions by reason, 2002–07

Grouping	2002	2003	2004	2005	2006	2007
Number of all petitions submitted	2,796	3,585	3,215	2,594	2,488	1,086
Number of workers covered by all petitions submitted	336,833	304,126	210,153	155,712	168,871	93,903
Percent of petitions certified	59	53	56	60	58	63
Percent of certified petitions due to increased imports	n.a.	47	55	55	53	46
Percent of certified petitions due to secondary workers	n.a.	8	9	6	8	9
Percent of certified petitions due to shifts in production	n.a.	30	36	39	39	44

n.a. = not available
Source: US Department of Labor.

one means of sharing some of the benefits of trade with those workers and communities paying a heavy price for that policy.

The high concentration of the adverse effects of trade and investment on workers, firms, farmers and fishermen, and communities introduces political concerns. Strengthening the commitment to address these distributional consequences could reduce opposition to adopting policies aimed at further liberalization of trade and investment. This rationale has taken on increased importance in recent years, as opposition to trade liberalization has grown.

TAA FOR WORKERS

The TAA for Workers program is by far the largest of the three existing programs. In order to receive assistance, workers must show that they lost their jobs due to any one of the following three eligibility criteria:

- an increase in imports;
- laid off from either an upstream or downstream producer; or
- a shift in production to another country.[2]

Each of these criteria must have "contributed importantly" to a firm's decline in production and sales. Table 1 presents the distribution of certified petitions by reason. In contrast to estimates made during the congressional debate over the 2002 reforms, the number of certified petitions related to shifts in production is much larger than the number of certified petitions for secondary workers.

Workers covered by certified petitions are currently eligible for the following assistance:

- 78 weeks of income maintenance payments, in addition to an initial 26 weeks of Unemployment Insurance (UI), if enrolled in training;
- all training expenses;
- a Health Coverage Tax Credit (HCTC), which provides a 65 percent advanceable, refundable tax credit to offset the cost of maintaining health insurance for up to two years;
- the Alternative Trade Adjustment Assistance (ATAA) program, commonly known as wage insurance, under which workers over 50 years old and earning less than $50,000 a year may be eligible to receive half the difference between their old and new wages, subject to a cap of $10,000, for up to two years;
- 90 percent of the costs associated with job search, up to a limit of $1,250; and
- 90 percent of the costs associated with job relocation, up to a limit of $1,500.

The TAA for Workers program has had a rocky history, including liberalization of eligibility criteria in 1974, cutbacks in assistance in 1981, and the establishment of a special program just for workers affected by trade with Canada and Mexico—i.e., the NAFTA-TAA for Workers program.[3] In 2002 Congress enacted the most expansive set of reforms in the

2. Current law limits this eligibility to shift in production to countries with which the United States has a preferential trade agreement or from which there is a prospect of an increase in imports.

3. See Rosen (2006) for a more detailed discussion of the history of the TAA for Workers program.

TAA for Workers program since it was established. The reform, first introduced by Senators Max Baucus and Jeff Bingaman, included:

- The TAA for Workers program and the NAFTA-TAA for Workers program were merged. The eligibility criteria and the assistance package under both programs were harmonized and unified in one program.
- Eligibility criteria were expanded to include workers who lost their jobs from companies producing inputs for goods that face significant import competition, and workers who lost their jobs due to shifts in production to countries with which the United States has a preferential trade agreement or "where there has been or is likely to be an increase in imports...."[4]
- The HCTC was established.
- ATAA was established.
- The training appropriation cap was increased to $220 million.
- Income support payments were extended by 26 weeks to enable workers to be enrolled in training and receive income maintenance for up to two years.
- Workers undertaking remedial education can postpone their entry into the TAA for Workers program for up to six months.
- The amounts provided for job search assistance and relocation assistance were increased to keep up with inflation.

Table 2 provides a comparison of program participation data before and after the 2002 reforms. The number of petitions filed does not seem to follow a pattern, despite a consistent increase in imports and outward investment over this period. On the other hand, the share of eligible workers participating in the program has significantly increased. This increase may be a "mixed blessing," as it might reflect the increasing difficulties workers face in finding new jobs.

Trade Adjustment Assistance is a complement to trade policy, not a substitute for it.

ATAA and HCTC are two examples of how assistance under the TAA for Workers program has shifted from traditional income transfers to more targeted, cost-effective assistance. Despite the benefits associated with these new forms of assistance, however, enrollment in ATAA and the HCTC is disappointingly low. A 2006 US Government Accountability Office (GAO) study of five large plant closings found that less than half of those TAA-eligible workers who visited one-stop career centers were even informed of the HCTC. A little over half of eligible workers were aware of the ATAA program.

Table 2 Comparison of participation in TAA for Workers program before and after 2002 reforms, annual average, 1997 to 2005

Grouping	1997–2001	2003–05
Number of petitions filed	n.a.	2,693
Percent certified	67[a]	64
Take-up rate (percent)	19[b]	43
Workers receiving income support	34,800	62,444
Workers in training	31,200	46,103
Workers in ATAA	n.a.	3,864[c]
Workers receiving HCTC	n.a.	22,000[c]

ATAA = Alternative Trade Adjustment Assistance
HCTC = Health Care Tax Credit

a. Figure is for 1994–98.
b. Figure is for 1996–2000.
c. Total is for 2003–06.

Source: US Department of Labor.

Wage Insurance (ATAA)

Many workers who lose their jobs due to import competition and shifts in production pay a heavy price in terms or short- and long-term earnings losses. According to work by Lori Kletzer based on the Dislocated Worker Survey, only two-thirds of dislocated workers from high import-competing industries find a new job within one to three years after layoff (Kletzer 2001). Of those workers reemployed, more than half experience no earnings loss or an improvement in earnings. Wage insurance is designed to assist the remaining 40 percent of dislocated workers (see table 3).

Wage insurance is not a substitute for the traditional UI program. The two programs serve two distinct populations: UI serves those workers seeking employment, and wage insurance assists those workers who have found new jobs.

Current labor-market conditions suggest that there is a high probability that workers will face the prospect of accepting a job that pays less than their previous job. Workers enrolled in ATAA unanimously report that financial pressures dictate that they return to work as soon as possible. ATAA helps cushion the potential losses workers face in taking a new job.

For example, the average weekly wage before layoff for workers displaced from high import-competing manufacturing

4. Public Law 107-210, Section 113(a).

Table 3 Reemployment and earnings experience of dislocated workers

Category	Manufacturing	Nonmanufacturing	High-import competing
Average prelayoff weekly wage (dollars)	396.88	368.95	402.97
Share reemployed (percent)	65	69	64
Average change in earnings (percent)	–12.1	–4	–1.3
Share with no earnings loss (percent)	35	41	36
Share with <15 percent earnings loss (percent)	35	29	35
Share with >30 percent earnings loss (percent)	25	21	25
Share unemployed > 26 weeks (percent)	22	13	24

Sources: Author's calculations based on data for 1979 to 2001 from Displaced Worker Survey, Bureau of Labor; Kletzer (2001).

industries was $402.97 between 1979 and 2001. Those workers who found new jobs faced, on average, a 13 percent loss in earnings. Under the current wage insurance program, these workers would be eligible to receive an additional $5,532 for the first two years after reemployment, an 8 percent increase in their new wage.

Despite its benefits, wage insurance is not a perfect solution to addressing the costs associated with unemployment. The 26-week deadline for eligibility and the inability to enroll in training while receiving wage insurance are two examples of shortcomings in the current program. One option to address these problems would be to remove the 26-week requirement and allow workers to enroll in training while receiving wage insurance. A more ambitious proposal would be to enable workers, with the approval of their one-stop career counselor, to design a mix of income support, training, and wage insurance over a two-year period. The benefits of the program suggest that eligibility should also be expanded to those younger than 50 years old.

Health Coverage Tax Credit

The Henry J. Kaiser Family Foundation reports that the average cost for health insurance for a family of four in 2006 was $11,500.[5] This equals 85 percent of the average amount of annual income support provided under the TAA for Workers program. For many workers, maintaining health insurance can be one of the largest, if not the largest, expense during unemployment. As a result many workers forgo health insurance. Unemployed workers and their families comprise a large share of the uninsured.[6]

The HCTC provides workers a 65 percent advanceable, refundable tax credit to offset the cost of maintaining health insurance for up to two years. The Internal Revenue Service (IRS) reports that since 2003, approximately 22,000 workers have used the credit, or about 500 to 600 new enrollees per month.[7] This constitutes only a small percentage of eligible workers. According to a study of workers from five plant closings, the GAO found that between 3 and 12 percent of eligible workers used the HCTC (GAO 2006). Between 39 and 60 percent of workers claimed they were not aware of the credit.

Wage insurance is not a substitute for the traditional UI program.

Of those workers who did not use the credit, the GAO found that between 50 to 82 percent of workers were covered by other health insurance—i.e., from a spouse. Forty-seven to 79 percent of respondents claimed that they could not afford to maintain their health insurance, despite the credit. Fifteen to 33 percent of workers found the credit too complicated.

In contrast to the Department of Labor (DOL), the IRS has implemented an outreach effort to inform each worker directly about the HCTC. Despite this effort, additional efforts appear necessary to ensure that all workers are aware of the

5. See the Henry J. Kaiser Family Foundation, *Employee Health Benefits: 2006 Annual Survey*, September 26, 2006.

6. US Census Bureau (2007). More than one-quarter of those workers without health insurance, aged 18 to 64, were not working.

7. The number of people covered by the HCTC rises to 37,000 when family members of TAA-eligible workers are included.

credit. Congress should also consider raising the amount of the credit in order to make maintaining health insurance more affordable to unemployed workers and their families. Technical problems relating to waiting periods and health insurance options for workers not covered by their previous employer's health insurance need to also be addressed.

The Next Round of Reforms

For the most part, the 2002 reforms "fought the last battle" and did not fully address more recent economic developments, such as international outsourcing of services. In addition, several technical problems were discovered while implementing the 2002 reforms, which need to be addressed. Following are the major issues that still need to be addressed:[8]

Service Workers. The service sector is increasingly under pressure from outward shifts in investment and international outsourcing.[9] Based on its current interpretation of the statute, DOL denies assistance to workers who lose their jobs from the service sector. DOL argues that workers in the service sector do not produce items that are "similar or like an imported *good* (emphasis added)." Although the law does not specifically restrict TAA eligibility to workers employed in manufacturing industries per se, over the years DOL's interpretation of the law has de facto resulted in such a restriction. A recent GAO study finds that denying assistance to service sector workers currently accounts for almost half of petition denials.[10]

In response to several recent appeals brought before the Court of International Trade, DOL recently announced that that it would consider petitions on behalf of software workers.

The statute governing the TAA for Workers program needs to be updated to explicitly cover workers who lose their jobs from service industries. A simple change in legislative language alone will not be sufficient to achieve this goal, since data do not currently exist to measure the importation of services. The administration and Congress may need to consider alternative methodologies for determining trade impact in order to adequately cover workers who lose their jobs in service industries.

8. See Kletzer and Rosen (2005) for additional recommendations.

9. Alan Blinder (2006) recently estimated that as many as 42 million to 56 million jobs, or 30 to 40 percent of total US employment, could be under pressure from possible offshoring. This estimate includes 14 million manufacturing workers and 28 to 42 nonmanufacturing workers, primarily workers employed in the service sector.

10. GAO (2007a). Many more workers may be discouraged from submitting petitions.

Industry Certification. Petitions for TAA eligibility are currently filed according to firm-related layoffs, meaning that multiple petitions must be submitted by different groups of workers employed in the same firm as well as in the same industry. In an effort to streamline the petition process and remove arbitrary discrimination between workers from the same firm and industry, industry wide certification should be added to the existing firm-related layoff certification.

For example, if the apparel industry was found to experience a decline in employment related to an increase in imports or outward shift in investment, then any worker subsequently laid off from the industry over the next two years or so would be automatically eligible for TAA without needing to go through the bureaucratic petition process.

...denying assistance to service sector workers currently accounts for almost half of petition denials.

In discussing this idea, Senator Baucus recently commented that all workers laid off from a specific industry should be covered by a single certification, the same way that all producers are covered by a single granting of import relief by the International Trade Commission.[11]

Given data limitations concerning the service sector, industry certification would facilitate eligibility determinations for workers displaced from service industries.

Training Appropriations. Allocating training funds to states to meet the needs of workers has been a challenge to DOL under successive administrations. GAO recently reported that on average, states spent or obligated 62 percent of their training allocations in 2006, with a large range among the states (GAO 2007a). The GAO found that 13 states spent less than 1 percent of their training allocation while 9 states spent more than 95 percent of their training funds in 2006 (GAO 2007b).

Currently, DOL allocates 75 percent of TAA training funds according to a formula based on states' spending over the previous two and a half years. Thus states that experience large layoffs in a subsequent year may receive an inadequate amount of training funds to meet the needs of all TAA-eligible workers. Conversely, states that experience large layoffs in previous years may receive more training funds than needed in a subsequent year. GAO also reported that DOL allocates a significant amount of funds at the end of the fiscal year, making it difficult for states to utilize those funds. Since existing legislation does not address this issue, DOL has complete discretion

11. TAA Coalition meeting, April 13, 2007.

in setting the method by which training funds are allocated to the states.

The allocation of training funds desperately needs improvement. Currently, DOL makes two disbursements—one at the beginning of the year and another at the end of the year. One recommendation would be to increase the number of disbursements, spread out more evenly throughout the year, based on shorter look-back periods—i.e., six months.

Currently the law sets a global cap of $220 million for training expenditures under the TAA for Workers program. The gap is not adjusted for inflation, changes in the economy, or major plant closings. At a minimum, the training cap needs to be raised on a regular basis. Ways to better link the training appropriation to the needs of TAA-eligible workers should also be explored.

Health Coverage Tax Credit (HCTC). GAO's survey of workers involved in five plant closings found that almost 70 percent of those workers without alternate health insurance reported that they could not afford to maintain their previous health insurance, despite the HCTC (GAO 2006). In a subsequent report, GAO estimated that even with the 65 percent tax credit, the cost of maintaining health insurance in four sample states was equal to approximately 25 percent of a worker's average monthly UI payment. Although the HCTC appears to have been an important addition to the package of assistance provided to workers, the amount of the credit needs to be increased in order to enable more workers to use it.

... other industrialized countries are devoting many more resources to labor-market adjustment programs than is the United States.

Currently, workers must receive income maintenance (or participate in ATAA), which means that they must be enrolled in training, in order to be eligible to receive the HCTC. This restriction severely limits the number of displaced workers who can receive the credit. GAO found that this requirement has forced workers to both enroll in training and receive income maintenance payments or to apply for a training waiver.[12] Some argue that requiring a worker to undertake training promotes "real adjustment," while others contend that it results in workers getting expensive assistance that they may not need or want. One proposal would be to provide the HCTC to all TAA-certified workers for up to two years or until the worker finds a new job, regardless of enrollment in training.

Other technical issues concerning the HCTC, such as the waiting period before enrollment, require immediate attention.

Wage Insurance (ATAA). The current program is restricted to workers over the age of 50. Although there is some evidence that older workers may have a harder time finding a new job, ATAA can potentially benefit all workers. It is a cost-effective means of cushioning the costs associated with taking a new job. The age requirement for ATAA should be lowered or even eliminated in order to make more workers eligible.

Self-Employed. Under the current program, workers are discouraged from pursuing self-employment. One option would be to continue providing income support, training, and possibly wage insurance to workers starting their own businesses.

Outreach. GAO has consistently found that many workers are unaware of the assistance provided by the TAA for which they are eligible (GAO 2006). This lack of awareness may help explain why program take-up rates are so low. DOL's outreach efforts seem inadequate. More resources need to be devoted to informing workers about TAA and other forms of assistance for dislocated workers.

Data Reporting. DOL, under successive administrations, has made it extremely difficult to obtain TAA program data, thereby making it hard to evaluate how well the program is working and which aspects of the program need to be improved, eliminated, or expanded. Public access to TAA program data is therefore critical to monitoring and evaluating the program.[13]

The TAA for Workers program is currently financed through general revenues, without any dedicated revenue offset.[14] In recent years the program's appropriation has not been a problem, primarily because the income maintenance portion is an entitlement and the training cap is set by law. On the other hand, total anticipated costs have been an issue when considering further program reforms and expansion. A dedicated funding stream might relieve some of these concerns, thereby enabling the program to reach its full potential.

One proposal to finance a further expansion of the program would be to dedicate some portion of customs duties.

12. GAO (2006). Some states have issued training waivers in order for more workers to receive the HCTC.

13. After years of complaints, DOL has recently begun making some data available on its website.

14. Section 245 of the Trade Act of 1974 called on the Department of the Treasury to establish a trust fund, financed by all customs duties, from which to finance TAA, but this trust fund has never been established.

Customs duties equaled approximately $20 billion in FY2003, and they are expected to rise to $25 billion over the next few years.[15] Since funds collected from customs duties are considered general revenue, diverting them to finance these proposals would contribute to the federal budget deficit. A more limited proposal would be to dedicate only the *increase* in customs duties over the next few years to offset the costs associated with expanding adjustment programs. This would also exacerbate the fiscal deficit and might not be sufficient to cover the total costs of the more ambitious proposals outlined above. Nonetheless, it might be a good way to jump-start the reform process.[16]

TAA FOR FIRMS

Congress established the TAA for Firms program in 1962 to help American firms respond to the pressures from increased import competition and *avoid* possible cutbacks and layoffs. Initially the program provided technical assistance, loans, and loan guarantees. Congress eliminated the loans and loan guarantees in 1986. Technical assistance is currently provided to firms by 11 Trade Adjustment Assistance Centers (TAAC) located around the country. Eligibility criteria mirror, although are not exactly the same as, those for the TAA for Workers program.

The TAA for Firms program has historically been quite small. Between 2001 and 2006, the program assisted approximately 150 firms a year covering some 16,000 workers. Average spending over the last nine years has been $11 million per year.

A recent evaluation by the Urban Institute found that firms that participated in the TAA for Firms program had a higher survival rate (84 percent) than eligible firms that did not participate in the program (70 percent), five years after certification. According to Gary Kuhar, director of the Northwest Trade Adjustment Assistance Center (NWTAAC), since 1984, there has been an 80 percent survival rate for firms assisted in his region. According to their internal cost-benefit analysis, this survival rate translates into a return of $234 for every federal dollar managed by the NWTAAC.

Congress should explore ways to expand the program, while ensuring its effectiveness. Existing eligibility criteria should be liberalized to meet current economic conditions. In addition, program funding and the capacity of the TAACs will need to be expanded if TAA eligibility criteria were expanded to include the service sector. Congress might also explore ways to integrate the TAA for Workers and TAA for Firms programs by automatically making all workers employed by firms participating in the TAA for Firms program eligible for the TAA for Workers program, and vice versa.

TAA FOR FARMERS AND FISHERMEN

Congress established the TAA for Farmers and Fishermen program as part of the 2002 reforms, based on legislation introduced by Senators Kent Conrad and Charles Grassley in the 106th Congress. Farmers and fishermen whose crops face a precipitous drop in their international price can receive minimal cash payments if they participate in technical assistance programs. Financial assistance is currently calculated as half of the difference between the most recent year's crop price and 80 percent of that price over the previous five years, subject to a limit of $10,000 per year.

Between 2004 and 2006 nine crops were eligible for assistance: avocados, catfish, Concord grapes, fresh potatoes, lychees, olives, salmon, shrimp, and wild blueberries. The program's experience over this period suggests that cash payments have been very small, making the program somewhat unattractive to farmers and fishermen. On the other hand, there is evidence that the technical assistance provided has been useful in helping farmers and fishermen diversify their crops and/or improve the yield and sales of their existing crops. Enrollment in technical assistance seminars has been encouraging, although it is too early to measure their effectiveness.

Despite public support for assistance and increased worker training, expanding labor-market adjustment programs remains a low priority in the United States.

An evaluation by the Western Center for Risk Management Education found that 40 percent of participants undertook changes to adjust to import competition as a result of the program.

The program is handicapped by two related problems. First, eligibility criteria are too restrictive, thereby denying assistance to farmers and fishermen in need of assistance. Second, due to the formula used, the amount of income assistance provided is very small, thereby making the program, and any subsequent adjustment to import competition, financially unattractive.

Annual spending on the TAA for Farmers and Fishermen program has been uneven, averaging $10 million annually over the last five years. Spending reached a peak of $21.3 million in

15. Multilateral agreements are likely to reduce tariff rates over the coming years. On the other hand, increases in imports could increase the amount of tariff revenues collected.

16. It should be noted that there is long-standing opposition among economists to dedicated funding schemes.

Table 4 Spending on active labor-market programs

Country	As a percent of GDP	Ratio of spending as a percent of GDP to the unemployment rate	As a percent of total spending on all labor-market programs
France	1.32	0.14	44.4
Germany	1.21	0.16	38.6
Canada	0.41	0.06	36.4
United Kingdom	0.37	0.07	40.0
Korea	0.31	0.08	66.9
Japan	0.28	0.06	34.2
United States	0.15	0.03	32.9

Source: Organization for Economic Cooperation and Development, *Employment Outlook 2003,* data for 2000–2001.

FY2005, before falling to $4.7 million in FY2006 and less that $1 million in FY2007.[17]

The European Union devotes 10 percent of the amount it spends on the Common Agricultural Policy (CAP) to positive adjustment in farming and fishing.[18] FY2006 spending on the TAA for Farmers and Fishermen program was less than one-tenth of 1 percent of total US farm income support.[19] Expanding the TAA for Farmers and Fishermen program, in a responsible and effective way, could contribute to reducing farm income support, which places pressure on the federal budget and continues to stand in the way of multilateral trade negotiations.

TAA FOR COMMUNITIES

The impact of globalization on the US economy is not limited to workers, firms, farmers, and fishermen. Broader communities in which these groups are located also experience the consequences of massive layoffs and earnings losses. Workers who lose their jobs cannot afford to purchase nonessential goods or eat in restaurants, thereby causing the effects of a plant closing to ripple across a community. Plant closings also erode a community's tax base, making it more difficult for the community to provide important services and attract new investment.

In addressing any job loss, the primary objective should be to get people back to work, as soon as possible, with the least amount of financial loss. The TAA for Workers program only takes a small step toward helping workers meet that objective. The 2002 reforms began to transform the TAA for Workers program from one focusing almost exclusively on income support and training to one that aims toward reemployment. The most important ingredient of any reemployment program is the availability of jobs, preferably high-paying jobs.

Several members of Congress have recently called for a TAA for Communities program.[20] This proposal is based in part on a growing awareness that the effectiveness of any training program is limited by the availability of jobs that utilize the skills acquired in that training. Under these circumstances, job creation requires shifting the composition of existing investment and attracting new investment.

The Economic Adjustment program at the Department of Defense (DOD) has been successful in helping communities in the aftermath of a military base closing. Under the program, DOD provides intensive technical assistance and funds to help communities to prepare and implement strategic plans for economic development.[21]

One proposal would be to temporarily assign a technical advisor to those trade-impacted communities willing to undertake certain activities. The advisor could help the community leaders design a strategic plan for economic development and apply for assistance under various existing public and private programs.

17. Data are from the Foreign Agriculture Service, US Department of Agriculture.

18. Annual spending on the CAP is estimated to be $45 billion.

19. Total US farm income support amounted to $16 billion in FY2006.

20. Senator Bingaman first introduced this proposal in 2001.

21. See Rosen (2001) for a discussion of a limited experiment, borrowing from DOD's base closing program, which was tried in New Mexico in 1998.

INTERNATIONAL COMPARISONS

As mentioned above, programs aimed at enhancing economic adjustment to the current realities associated with globalization should be part of any nation's competitiveness strategy.

Currently, other industrialized countries are devoting many more resources to labor-market adjustment programs than is the United States (see table 4). Relative to six other major industrialized countries, the United States spends the least on active labor-market adjustment programs, even after taking into account each country's unemployment rate. France and Germany each devote about five times more to their active labor-market programs than does the United States.

On the other hand, the Danish "Flexicurity" system, which is currently getting a lot of attention, is not a magic bullet. In addition to differences in hiring and firing policies, the Organization for Economic Cooperation and Development estimates that Denmark spends eight times more public funds, as a share of GDP, to labor-market programs than the United States.[22] The Danes spend 10 times more public funds, as a share of GDP, to training and five times more, as a share of GDP, to income support than the United States.

CONCLUSION

Public opinion surveys find that Americans are willing to support trade liberalization *if* the government assists those workers, firms, and communities adversely affected by trade and offshore outsourcing. Despite significant changes in the US economy over the last 45 years, including an increase in import penetration and a decline in manufacturing employment, efforts to assist workers adversely affected by increases in imports and shifts in production have remained modest at best. Efforts to reform and expand the program in 2002 were extremely useful in breathing new life into that commitment. But implementation of those reforms has been uneven at best. More effort must be undertaken to ensure that all workers, firms, farmers, and fishermen receive the assistance they need.

Several pieces of legislation have already been introduced, and several others are likely to be introduced, to continue the efforts begun in 2002 to reform and expand TAA. These proposals include extending eligibility criteria to cover workers who lose their jobs from service industries, establishing a process for certifying entire industries, increasing the budget cap on training expenditures, and expanding the HCTC and wage insurance programs. Congress should seriously consider enacting these proposals.

22. Danish labor laws are more protective of workers than US labor laws.

The increased importance of international trade to the US economy and the growing concern over economic dislocations would seem to make assistance to workers, firms, and communities facing these pressures a more pressing issue in 2006 than it was in 1962. Yet despite public support for this kind of assistance and rhetoric on the need to increase worker training, expanding labor-market adjustment programs remains a low priority in the United States. This needs to change if the United States wants to pursue a competitiveness strategy that increases productivity and raises living standards.

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THE HAMILTON PROJECT

Advancing Opportunity, Prosperity and Growth

DISCUSSION PAPER 2006-06 SEPTEMBER 2006

Lori G. Kletzer

Howard F. Rosen

Reforming Unemployment Insurance for the Twenty-First Century Workforce

THE BROOKINGS INSTITUTION

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Abstract

Despite significant changes in U.S. labor market, the basic structure of the nation's unemployment insurance (UI) program has remained unchanged since it was created in 1935. The current system is in need for reform in order to meet the needs of a twenty-first century workforce. Shortfalls in the current program fall into four categories: (1) overly restrictive eligibility criteria have resulted in low recipiency rates; (2) benefit levels are low; (3) the federal tax system used to finance the program is regressive; (4) and the mechanism to automatically extend UI during periods of prolonged economic downturns is broken. As a result of these and other factors, only about one-third of unemployed workers currently receive assistance under the UI program, and that assistance falls short of the original goal of replacing at least half of previous earnings. In addition, the system provides no assistance either to the self-employed or to those who become reemployed at lower wages.

In this paper we propose three broad reforms, each designed to help the UI system better meet the needs of a twenty-first century workforce. First, we propose strengthening the federal role in UI by setting federal standards that would require states to harmonize their eligibility criteria and benefit levels. These new standards would aim to raise average national benefit levels and average national recipiency rates. Expansions in the program would be financed by raising the FUTA taxable wage base over time to $45,000 to adjust for inflation over recent decades. Second, we propose a wage-loss insurance program, as part of the UI program, to provide an earnings supplement for those workers who become reemployed at a wage lower than the wage they earned at their previous job. Finally, we propose allowing self-employed workers, and perhaps others, to contribute up to 0.25 percent of annual income, up to $200 per year, into Personal Unemployment Accounts (PUAs). These contributions would be matched by the federal government and could be withdrawn later to cushion severe income losses or to finance training or job search.

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Introduction

The unemployment insurance (UI) system is the foundation of the U.S. government's response to the hardships associated with economic downturns and related job loss. In response to the Great Depression, the Social Security Act of 1935 established the UI and Social Security systems.[1] There have been no major changes in the basic structure of the UI system since then, despite significant changes in U.S. labor market conditions. Currently, just over one-third of unemployed workers actually receive assistance under the program, and that assistance is modest, at best. The 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands each administers and finances its own UI program, resulting in vast differences in benefit levels and tax rates, which do not appear to reflect local labor market conditions. The goals of UI are to provide income support during the period of unemployment (that is, to smooth income and thus to smooth consumption), and to provide insurance against the risk of job loss. The failure to provide extended assistance in an orderly and timely fashion has seriously hindered the program's ability to achieve one of its other objectives: to provide countercyclical stimulus during periods of economic downturns.

While the basics of UI have remained unchanged, the U.S. labor market and workforce have experienced significant changes over the past half century. The agricultural-manufacturing economy of the 1940s and 1950s has been transformed into the service economy of the late twentieth and early twenty-first centuries. The entry of women into the labor force, the decline of traditional employer-based full-time employment, and the rise of contingent and part-time employment are just some of the sweeping changes that have taken place over the past 70 years. In addition, UI has never served the self-employed, who now total more than 10 million workers.[2] Our starting point is that the current UI system is seriously out of date, given the needs of a twenty-first century workforce. Although the basic structure is sound, important aspects of the system are in desperate need of reform. Although we are not the first to call for reform, the recommendations of the congressionally mandated Advisory Council on Unemployment Compensation (1996a, 1996b), chaired by long-time Bureau of Labor Statistics Commissioner Janet Norwood, did not receive the attention they deserved when they were issued in the mid-1990s, and have since all but been forgotten.

This paper is presented in four sections. Section 1 highlights recent changes in the U.S. labor market. Section 2 describes the current structure of UI and identifies its shortcomings. Section 3 presents several bold policy recommendations for reforming the UI system to better suit the needs of the current workforce, and Section 4 presents our conclusions.

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1. Widespread economic hardship experienced in the 1930s had a huge impact on the nation's conscience and contributed to a sea change in the view of the role of the government in the United States. People in need began looking to the government, as opposed to families and other social institutions, as the primary provider of assistance. Social Security and UI constitute the most comprehensive social welfare programs in the history of the United States.
2. Based on Current Population Survey data, 10.3 million workers were self-employed in 2003, accounting for 7.5 percent of total employment (Hipple 2004). Self-employment as a share of employment has fallen, however, over the more than 70 years since the establishment of UI. Much of that decline is explained by the declining importance of agriculture in employment. Incorporated self-employment has risen, as has the participation of women in self-employment (Hipple 2004).

I. Changes in the U.S. Labor Market

Kletzer and colleagues (forthcoming) document the sweeping changes in the labor force that have occurred since the late 1930s. A significant rise in population, fueled in large part by the postwar Baby Boom, and the increasing participation of women in the labor force resulted in its tripling in size—from slightly more than 50 million people in 1939 to almost 150 million people in 2004.[3] The most significant change over the past 40 years has been the entry of women into the labor force. Since 1960, the female labor force participation rate has increased by 20 percentage points, while the male labor force participation rate has declined slightly.

TABLE 1.

Unemployment Rate and Duration, by Decade

Decade	Rate	Unemployment Average duration	Unemployment Median duration
1960s	4.8	11.8 weeks	3.7 weeks*
1970s	6.2	11.9 weeks	6.3 weeks
1980s	7.3	15.0 weeks	7.1 weeks
1990s	5.8	15.7 weeks	7.6 weeks
2000s	5.2	16.2 weeks	8.3 weeks

Sources: Authors' calculations based on data from Bureau of Labor Statistics; and U.S. Department of Labor (Series LNS14000000, LNS13008275, and LNS130008276).

* BLS only reports median duration of unemployment data for 1967 to 1969. The average of these three years is 3.7.

The composition of employment has also changed significantly. Agricultural employment, in decline for the better part of a century, stood at 6 percent of total employment in the 1960s and is currently just below 2 percent of total employment. Manufacturing employment, as a share of total employment, has fallen by half, from 34 percent in the 1960s to 17.5 percent currently. Services have dominated employment since the 1960s, with manufacturing employment now accounting for about one in six jobs.

In addition to changes in the demographics and the composition of employment, there have been changes in the nature of unemployment. After rising between the 1960s and the 1980s, the average unemployment rate began falling in the 1990s, reaching a low of 4 percent in 2000 and remaining moderate over the past six years (Table 1).

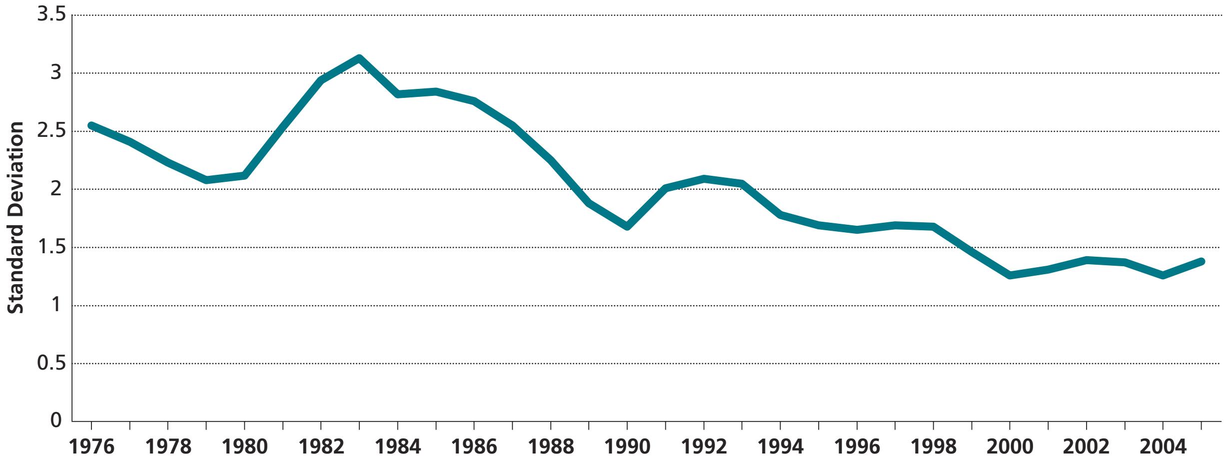
Despite overall declines in the unemployment rate, the average and median duration of unemployment has increased. These two conflicting trends suggest a change in the source of joblessness—from temporary layoff to permanent displacement.[4] McConnell and Tracy (2005) document that, from the 1960s to mid 1980s, recessions featured surges in temporary layoffs, while for the past two recessions (early 1990s and 2001), cyclical increases in the use of temporary layoffs were not evident.[5] Overall, new entrants account for a smaller share of the unemployed, and job losers account for a larger share of the unemployed. Compared to the 1970s, those currently unemployed have more labor force experience.

For most of the past century, employment and unemployment were highly correlated with the business cycle. This relationship appears to have changed in recent years. First, with the exception of the early 1980s, there has been a decline in the official length of recessions. Second, there has also been a decline in the magnitude of job losses occurring during economic slowdowns. Third, employment declines have continued for at least one year after the end of the last two recessions and employment recovery has taken longer. Taken together, these three developments suggest that something has changed in the underlying structure of the U.S. labor market in recent years.

3. The entry of the Baby Boomer cohort into the labor force now presages the expected aging and shrinking of the labor force as Boomers reach retirement age.
4. In a temporary layoff, there is an expectation that the employer will recall laid-off workers in the future.
5. See also Groshen and Potter (2003). In addition, McConnell and Tracy (2005) show that improvements in the (imperfect) experience rating of UI play little role in explaining the shrinking share of temporary layoffs in unemployment. Lower manufacturing production volatility has more explanatory power.

FIGURE 1

Variation in State Unemployment Rates, 1976–2005



Source: Authors' calculations based on data from Bureau of Labor Statistics.

The data presented in Figure 1 suggest that there has been a significant decline in variation across state unemployment rates over the past 30 years. During the late 1970s, states in the Northeast and Midwest—regions with high concentrations of traditional industries such as automobile manufacturing, textiles and apparel, and steel—experienced significantly higher unemployment rates than states in other regions. Beginning in the 1980s, state unemployment rates began converging toward the national average, reflecting a slow decline in overall unemployment and more similarity in state unemployment rates. This convergence suggests that, during the past 20 years, unemployment has been explained more by national factors than by state or regional factors.

To summarize, we have identified the following five major developments in the U.S. labor market:

1. There has been an increase in labor market participation by various demographic groups. The typical worker of 1935 was not the typical worker of 2006.
2. The shift of employment from agriculture to manufacturing has been joined by a shift from manufacturing to services.
3. Despite a moderate aggregate unemployment rate, the duration of unemployment has increased, with a greater incidence of permanent job loss than of temporary layoffs.
4. State unemployment rates are converging, reflecting a reduction in their variation.
5. Changes in employment and unemployment seem to be due more to structural rather than to cyclical factors.

Newer firm-level employment data provide deeper insights into recent developments in the U.S. labor market. Analysis by a number of scholars reveals a high degree of labor market dynamism across all industries.[6] The high degree of employment turnover, evidenced in the firm-level data, confirms and provides deeper insights into the findings reported above, i.e., a moderation in the unemployment rate, an increase in the duration of unemployment, and a reduction of the importance of business cycles in explaining unemployment. All of these labor market conditions are very different from conditions that existed when UI was established.

The original UI program was designed to offset income losses during cyclical periods of temporary involun-

6. During the 1990s, the U.S. Census Bureau and the Bureau of Labor Statistics began publishing information on job creation and destruction based on firm-level data (Davis and colleagues 1996, Klein and colleagues 2003).

tary unemployment. By contrast, current workers face short-term transitional unemployment as they move from job to job, and they face long-term structural unemployment. The existing UI system is inadequate in responding to these labor market conditions. The system also does not assist workers who seek part-time employment, workers who voluntarily leave one job in order to take another, or workers who experience long-term unemployment. New entrants and reentrants into the labor market are not currently eligible for UI, since these two groups of unemployed do not fit well with one of the program's original objectives, i.e., insuring against the risk of involuntary job loss. Covering these workers would raise issues concerning the amount and duration of assistance, since they may not have relevant work experience.

Underlining these macroeconomic changes to the U.S. labor market is a shift from traditional employer-based full-time employment to an increased reliance on contingent and part-time employment. The shift to these nontraditional forms of employment reflects additional shortfalls in the current UI program. A system designed to provide income support during temporary layoffs for workers who were permanently attached to a single employer is not well designed for a labor market with considerable self-employment and contingent, part-time, and low-wage employment.

II. The Current UI Program

Federal law established the UI program in 1935 in order to provide temporary and partial wage replacement to workers involuntary separated from their jobs. It was believed that UI would serve as a countercyclical mechanism to help stabilize the economy during economic slowdowns. In the more contemporary language of the economic analysis of insurance, the primary goal (or benefit) of UI is the ability of the government to smooth income and consumption during unemployment spells.

The UI program was modest at first. Coverage was limited to employers with more than eight employees working at least 20 weeks a year. The program did not originally cover workers employed in agriculture, nonprofits, or the government.[7] Most states set their benefit levels at 50 percent of previous earnings, up to an initial maximum benefit of $15 a week. The duration of payments ranged from 12 to 20 weeks, with most states providing assistance for a maximum of 16 weeks. Approximately 500 million unemployed workers have received more than $600 billion in assistance since the establishment of the program.[8]

As established in 1935, the UI program is a federal-state system. The federal government establishes rules and standards, primarily on minimum coverage and eligibility criteria, and sets a minor tax to finance the overall administration of the program. Individual states set their own benefit amounts, duration of assistance, and means of financing that assistance.

Like Social Security and Medicare, UI, which buffers income losses associated with involuntary job loss, is a social insurance program.[9] Private UI could provide the same protection, but it is commonly thought that problems of adverse selection (of employers) would lead to private market failure. The universality of UI means that receipt of benefits is conditional only on job loss, and is not based on an individual's income or wealth. That universality is commonly considered a political strength of the program, as it is with Social Security.

Some important insurance principles are built into the UI system. Premiums are paid in advance through employer taxes on wages earned.[10] Individual eligibility requires earnings and employment experience above a state-specified minimum, and entry into unemployment must be through involuntary job loss resulting from a list of acceptable causes. The covered earnings requirement means that eligible workers are those with some labor force attachment. Continued receipt of benefits requires being able, available for, and actively seeking full-time work, as determined through the UI work test administered by state Employment Service (ES) offices.

Coverage and Eligibility

The most significant changes in UI since 1935 are related to coverage. Over the years, various changes have widened the net of covered employment to include almost all wage and salary workers, with the exception of agricultural and household workers. Self-employed workers are still not covered under the program.

Eligibility criteria for receiving assistance, listed below, are based on monetary and nonmonetary determinations; the application of these criteria varies by state:

- record of recent earnings, over a base year
- length of job tenure (calendar quarters employed)
- cause of job loss
- ability and willingness to seek and accept suitable employment

7. As a result of various extensions, workers in these sectors are currently covered.
8. Congressional Budget Office (2004) reports that, for most of these people, UI provided the only income during their periods of unemployment.
9. Feldstein (2005) offers a succinct exposition of social insurance.
10. Taxes are levied on employers, but the incidence is likely passed on to employees.

Monetary eligibility is essentially a sufficient work history prior to job loss. Each state determines its own sufficient work history, relying on earnings during a base period.[11] Table A1 in the appendix reports the wide variation across states in monetary eligibility. Nonmonetary criteria pose more significant hurdles for many workers (Levine forthcoming). Most state programs assist only those workers who lose their jobs through no fault of their own, as determined by state law. In more detail, reasons for ineligibility of UI include the following:[12]

- voluntary separation from work without good cause
- inability or unwillingness to accept full-time work
- discharge for misconduct connected with work
- refusal of suitable work without good cause[13]
- unemployment resulting from a labor dispute

There is enormous variation across states in the definition of *good cause* for voluntary separation, i.e., leaving to accept other work, compulsory retirement, sexual or other harassment, domestic violence, and relocation to be with a spouse (U.S. Department of Labor 2006b). Forty-three programs restrict good cause to reasons connected to work.[14] Program discretion in setting these standards results in numerous inconsistencies. For example, workers who quit to move with a spouse and meet the monetary eligibility criteria are eligible to receive UI benefits in some programs—including California, Kansas, and New York—but not in others—including Connecticut, Delaware, the District of Columbia, and Massachusetts.[15] Workers who quit because they have been victims of sexual or other harassment are potentially eligible for UI benefits in all programs except six: Alabama, Georgia, Hawaii, Missouri, New Hampshire, and Vermont. Workers who voluntarily leave their jobs in anticipation of a plant closing in order to accept another job are potentially eligible for UI in many states, including California, Minnesota, New York, and Pennsylvania, but are ineligible in North Carolina, South Carolina, Tennessee, and West Virginia.[16] In a highly mobile society, with integrated labor markets, it is difficult to imagine a plausible argument in support of these differences in state programs.

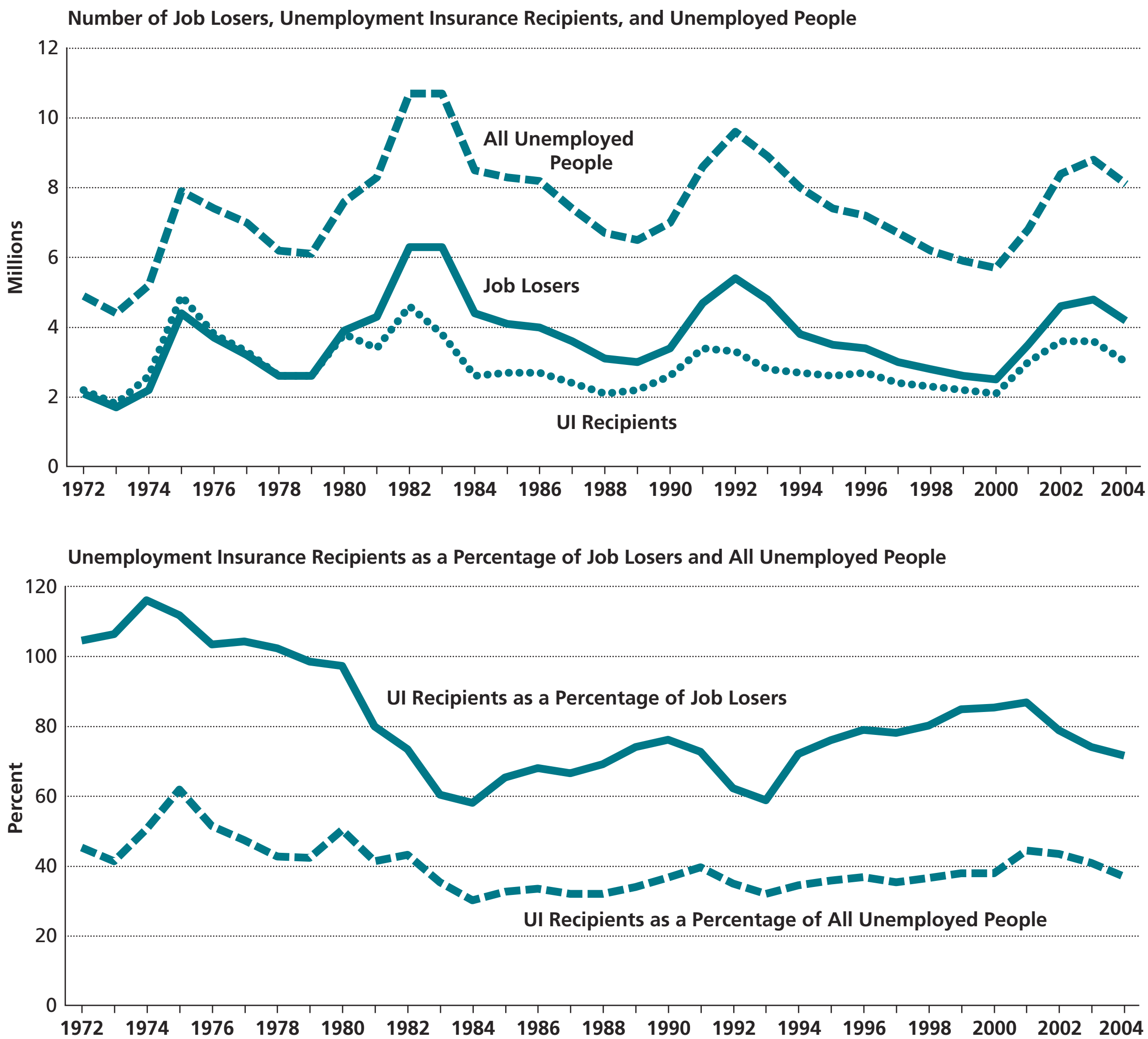
The base period monetary criteria are used as an imperfect proxy for labor market attachment. One unfortunate consequence is that some workers have insufficient work experience to meet the base period requirement, i.e., reentrants into the labor market who are actively seeking employment are not eligible for UI. As a result, women who decide to postpone returning to work after childbirth and workers who return to school or who take up training following a job loss can be ruled ineligible for UI. This is true despite the fact that their current or former employers paid UI taxes, and despite the likely satisfaction of monetary eligibility requirements for the immediate base period prior to the job loss.

The percent of total unemployed workers receiving assistance, the *recipiency rate*, has declined over the past two decades. The recipiency rate peaked in 1975 when half of all unemployed workers received UI. The rate fell to as low as 29 percent in 1984, before rebounding to 39 percent in 1991. Receipt of benefits increased to above 40 percent in 2001, 2002, and 2003, before falling back in 2004 (Figure 2). The average recipiency rate over the past 27 years is approximately 37 percent. In other words, in recent years only a little more than one-third of unemployed workers actually have received assistance under the UI program.

11. The base period is generally the first four of the last five completed calendar quarters before the job loss. For a worker losing a job in July 2006, the base period would be April 2005 through March 2006. This lag is a remnant of a time when earnings reports had to be forwarded to a state employment office. Clearly, with improved information and communications technology, reporting can be done on a more timely basis. Some states use an alternative base year, defined as the past four completed calendar quarters, if the standard base year calculation leaves a worker ineligible for benefits (U.S. Department of Labor 2006b). See Levine (forthcoming) for a detailed discussion of the base year and its impact on benefit receipt of low-wage workers.
12. See U.S. Department of Labor (2006a) for details on nonmonetary eligibility.
13. Generally, workers receiving UI cannot refuse a job offer without good cause.
14. California, New York and eight other jurisdictions allow for good personal cause (U.S. Department of Labor 2006b).
15. The 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands constitute the 53 UI federally approved UI programs.
16. This inconsistency in state UI eligibility criteria is particularly troublesome because it increases the costs associated with structural change.

FIGURE 2

Unemployed Workers, Job Losers, and UI Recipients, 1972–2003



Source: Congressional Budget Office 2004, Figure 3.

Benefit Levels

One of the initial goals of UI was to replace half of lost wages. Because of the federal-state nature of the program, each state sets its own minimum and maximum weekly benefit amounts. Although several states have set their maximum weekly benefit at approximately two-thirds the state weekly wage, currently only one state—Hawaii—has achieved the initial goal of actually replacing, on average, half of lost wages.

Almost all states set their maximum weekly benefits somewhere between $200 and $500, with the largest concentration of states between $300 and $400 (Table A1, in the appendix). Puerto Rico has the lowest maximum weekly benefit ($133). States with the highest maximum weekly benefits include Massachusetts ($551 to $826), Minnesota ($350 to $515), New Jersey ($521), and Rhode Island ($492 to $615; Department of Labor 2006b). The average weekly benefit in 2004 ranged from $106.50 in Puerto Rico to $351.35 in Massachusetts. The average weekly benefit for the entire country was $262.50 (Council of Economic Advisers 2006, Table B-45). This average is almost 10 percent less than the weekly equivalent of the poverty level for a family of three that was set by the U.S. Census Bureau.[17]

The *replacement rate*, defined as average weekly benefits as a share of average weekly earnings, is a useful measure of benefit sufficiency.[18] The District of Columbia has the lowest replacement rate, less than one-fourth of average earnings. As mentioned above, Hawaii's UI program comes closest to replacing half of unemployed workers' average weekly earnings. Thirty-eight states have an average replacement rate of more than one-third but less that one-half of their workers' average weekly wages. The states with the lowest replacement rates include Alabama, Alaska, Arizona, California, Connecticut, Delaware, Louisiana, Maryland, Mississippi, Missouri, New York, Tennessee, and Virginia. The average replacement rate for the United States between 1975 and 2004 was 0.36, reaching as high as 0.38 in 1982 and as low as 0.33 in 1998 and 2000 (authors' calculations based on Department of Labor data).

Duration of Benefits

In the early years of the program, the duration of UI benefits was 12 to 20 weeks. Starting in the 1950s, a period of relatively low unemployment, a sizable number of states increased their UI duration to 26 weeks. By 1980, 42 states had a maximum duration of 26 weeks, and the duration for the 11 remaining programs was between 27 and 39 weeks (O'Leary and Wandner 1997, Table 15.3). Currently, all jurisdictions have a maximum duration of 26 weeks except Montana (28 weeks) and Massachusetts (30 weeks; Department of Labor 2006b).

Over the past 30 years, the average duration for receiving UI has ranged from a low of 13 weeks in 1989 to a high of 17.5 weeks in 1983, hovering around 15 weeks for most of the period (Figure 3). A sizeable fraction of UI beneficiaries exhaust their benefits, i.e., remain unemployed beyond the period for which they can receive UI. The percent of workers who exhausted the benefits before finding reemployment ranged from a low of 25.8 in 1979 to a high of 43.9 in 2003. On average, approximately one-third of UI recipients exhaust their benefits before finding new jobs.

With the trend increase in the average duration of unemployment, the maximum period that workers can receive UI has fallen from two times to a little more than 1.5 times the average duration of unemployment. As with benefit levels, there does not appear to be any significant relationship between benefit duration and local labor market conditions.

Until the 1980s, the pattern of job loss in the United States was strongly cyclical. As a result, the number of unemployed and the duration of unemployment tended to increase during periods of economic slowdown and decrease during periods of recovery. According to this relationship, the share of unemployed workers who exhaust their benefits before finding new jobs would be expected to rise during and immediately after recessions.

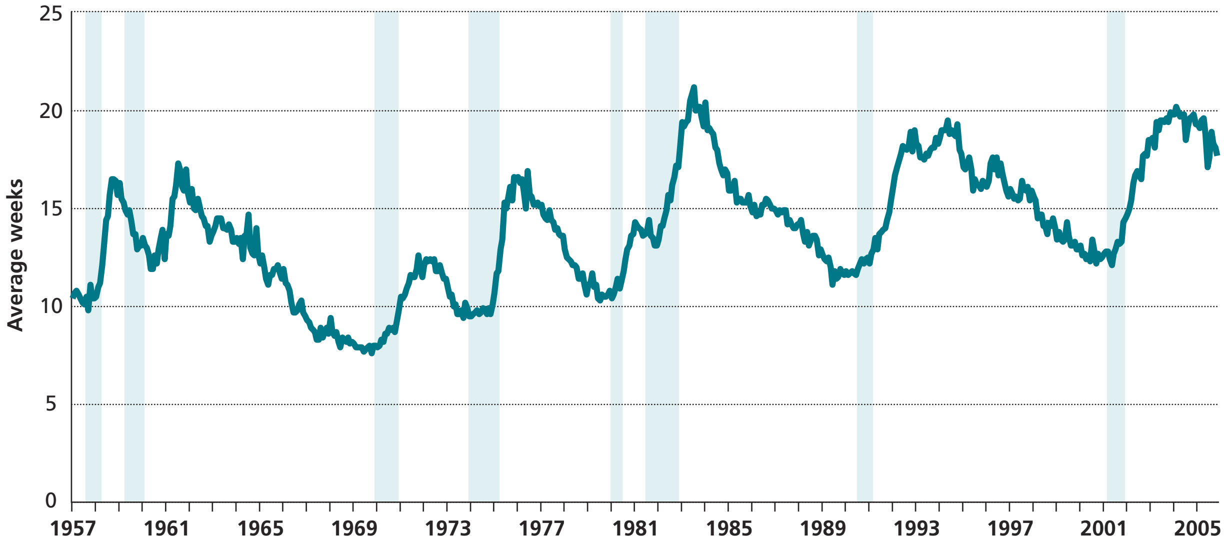
Extended Benefit Programs

The UI system proved unable to respond to surges in unemployment during most of the cyclical downturns over the past half century. Increases in the duration of unemployment during and immediately following those recessions were the primary impetus for extending statutory UI beyond its base period (Figure 3). Congress enacted the first temporary extension of UI during the 1958 recession. In 1970, Congress enacted the Extended Benefit (EB) program with automatic triggers to provide assistance in a more orderly fashion. High rates of regular UI exhaustion, problems with the automatic triggers, and political pressures resulted in the need for subsequent congressional action to deal with heightened levels and prolonged duration of unemployment during recessions.

17. Annual incomes at and below $14,974, for a family of three, with one child under the age of 18, were defined as poverty level for 2004 (U.S. Census Bureau 2005).
18. Only average weekly earnings for UI recipients are used in calculating the replacement rate.

FIGURE 3

Average Duration of Unemployment Insurance Receipt, with Periods of Recession Highlighted, 1957–2005



Sources: For duration: Bureau of Labor Statistics; and for business cycle timing: National Bureau of Economic Research 2006.

Under the current program, UI benefits can be extended for an additional 13 weeks when the unemployment rate of covered workers (the Insured Unemployment Rate, or IUR) during the previous 13 weeks was: (1) at least 5 percent and (2) 20 percent higher than during the same 13-week period of the previous two years. Since states are required to finance half of the extended benefit programs, they are free to adjust this trigger.[19]

Changes in the labor market and in the UI program, combined with the static nature of the triggers, have produced an extended benefit system that is not automatic. As a result, Congress has occasionally found it necessary to extend UI through the Temporary Extended Unemployment Compensation program. Since the 1980s, the standard extended benefit program has provided a smaller share of assistance to unemployed workers than the emergency extensions of UI enacted by Congress.

Although helpful to millions of workers, these temporary stopgap measures have politicized unemployment assistance, thereby undermining one of the initial goals of the UI program. These temporary programs have proven to be clumsy, typically being enacted after hundreds of thousands of workers have already exhausted their UI. In addition, the sunset provisions are arbitrarily set and usually fall before employment has recovered. Overall, the nation's UI program has become less automatic and more dependent on congressional action in response to prolonged periods of economic slowdown.

Financing UI

UI is financed by a combination of federal and state payroll taxes. Revenue from the federal payroll tax is used to finance the costs incurred by federal and state governments in administering the UI program and to cover loans to states that exhaust their regular UI funds. States are required to raise the necessary revenue

19. Optional triggers include cases when the IUR for the previous 13 weeks is above 6 percent, regardless of its performance over the previous two years; and cases when the seasonal adjusted unemployment rate for all civilian employment, i.e., the Total Unemployment Rate (TUR), is at least 6.5 percent and 10 percent higher than that rate for the same three-month period in either of the two previous years. Benefits can be provided for an additional 13 to 20 weeks if the TUR is at least 8 percent and 10 percent higher than that rate for the same three-month period in either of the two previous years.

to finance regular UI benefits paid to their unemployed workers. Federal and state governments share the costs of financing benefits under the automatic extended benefit program. Currently, federal taxes finance 17 percent of the UI program. The remaining 83 percent is financed by state taxes. Temporary extended UI programs enacted by Congress have typically been financed by federal budgetary expenditures without any specific revenue offset.

The federal tax established by the Federal Unemployment Tax Act (FUTA) is currently 6.2 percent on the first $7,000 of annual salary by covered employers on behalf of covered employees.[20] Employers must pay the tax on behalf of employees who earn at least $1,500 during a calendar quarter. Employers receive a 5.4 percent credit against the tax, making the effective FUTA tax rate 0.8 percent.[21] The bottom line is that the federal tax is trivial: A maximum of $56 is collected annually for each worker who is covered under the program.

There have been few adjustments in the FUTA taxable wage base since it was first established in 1939. The wage base, originally set at $3,000, remained fixed for 32 years, until 1972, when it was raised to $4,200. That increase kept the taxable wage base in line with its real value in 1960. Congress raised the federal taxable wage base to $6,000 in 1978 and to $7,000 in 1983, where it has remained for the past 22 years. Had the taxable wage base been adjusted for inflation over the past 65 years, it would currently be about $45,000 (Figure 4).

If the taxable wage base were adjusted to $45,000, the net federal tax rate, i.e., the tax rate minus the credit, could be reduced by half, to 0.4 percent, and generate the same amount of revenue that is currently being collected.[22] Although it is unrealistic to expect an adjustment of this magnitude anytime soon, any increase in the wage base to make up for the erosion in its real value over the past two decades could provide additional funding for providing assistance to workers in need, or could enable the federal government to reduce the FUTA tax rate, or both. Most importantly, adjusting the wage base upward would reduce the regressive nature of the tax. Under the current structure, the FUTA tax accounts for a larger share of lower income workers' wages. Adjusting for inflation alone, as many states have been doing for their own UI taxes, would increase the federal taxable wage base fivefold, make the system more progressive, and provide additional revenues to the system.

Twenty-seven jurisdictions set their taxable wage base below $10,000; of those programs, 10 set their taxable wage base at $7,000, the same as the federal taxable wage base (Table A1, in the appendix). Twelve programs set their taxable wage base above $20,000, close to three times the taxable wage base set by the federal government. The states with the highest taxable wage base include North Dakota ($20,300), Montana ($21,600), Iowa ($22,000), Minnesota, Nevada, and Utah (each with taxable wage bases of $24,000), New Jersey ($25,800), Oregon ($28,000), Arkansas ($28,700), Idaho ($29,200), Washington ($30, 900), and Hawaii ($34,000; U.S. Department of Labor 2006a). The weighted average taxable wage base for all 53 UI programs is $11,305.

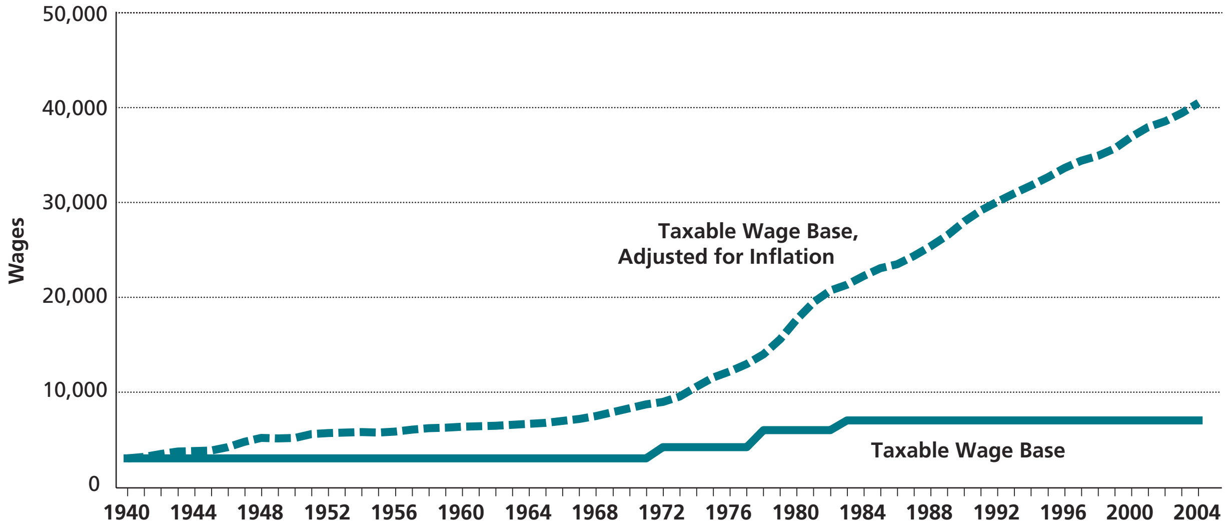
Federal guidelines dictate that states have in place UI payroll tax systems that are experience rated. With experience rating, firms that lay off fewer workers face a lower tax rate on their payroll. States have the discretion to structure their own experience rating system, and those systems, as with the tax rates, vary considerably among the states.

The average UI tax rates vary among jurisdictions from 0.18 percent in the Virgin Islands to 1.89 percent in Arkansas. Forty-four jurisdictions have average UI tax rates below 1.0 percent, while 6 jurisdictions – Illinois, Massachusetts, Mississippi, Pennsylvania, Puerto Rico, and Rhode Island—have average tax rates between

20. The 6.2 percent includes a 0.2 percent surtax initially passed by Congress in 1976, designed to replenish the UI trust fund. The surtax is scheduled to expire on December 31, 2007.
21. This credit is available only to employers in jurisdictions that have approved UI programs. All jurisdictions currently have approved programs.
22. This estimate is based on the current number of workers covered.

FIGURE 4

Federal Taxable Wage Base, 1940–2004



Source: Authors' estimates based on data from U.S. Department of Labor.

1.0 and 1.5 percent, and three programs—Arkansas, Oregon, and Washington—have the highest UI tax rates, of over 1.5 percent. The average tax rate for the 53 UI programs is 0.82 percent.[23]

Some aspects of the current UI system work well and deserve to be highlighted. Examples are the contribution of the UI program to income smoothing and consumption smoothing and insuring workers against the risk of job loss (see Gruber 1997 and Chetty 2004, among others). UI constitutes an important source of income for unemployed workers and their families, particularly for the long-term unemployed. The Congressional Budget Office (2004) reports that UI benefits played a significant role in maintaining the family income of recipients who experienced long-term spells of unemployment in 2001 and early 2002, particularly for those families that had only one wage earner. Before becoming unemployed, recipients' average family income was about $4,800 per month. When recipients lost their job, that income—excluding UI benefits—dropped by almost 60 percent. Including UI benefits reduced the income loss to about 40 percent.[24]

23. Tax rates equal UI tax collections as a percent of total wages in taxable employment (U.S. Department of Labor 2006c).

24. Long-term recipients are defined in this report as unemployed workers who received UI benefits for a spell of at least four consecutive months, in 2001 or early 2002.

III. A Major Makeover for UI

In recent years, the U.S. labor market has come under increased pressures from intensified domestic and international competition. These pressures have changed the nature of job turnover in the United States. Unlike the cyclical job losses that characterized the labor market and economy from 1945 to the 1980s, job losses are now related more to structural factors, with workers simultaneously changing jobs, industries, and occupations. The current UI program, though, is fighting the last battle, one of widespread temporary layoff, where workers were attached to a single employer.

As discussed above, current labor market conditions differ a great deal from those that existed in 1935, suggesting that it is time to revisit some of the fundamental elements of the original UI program. The reforms we outline below maintain the basic structure of UI, while enhancing its efficiency, reach, and impact to reflect the changes in the labor market since the program was designed. Before turning to the specific changes, it is worth examining why we retain the basic structure of the program. After seven decades of experience, there is widespread agreement that the government should play an important role in providing insurance against job loss and income support to smooth consumption.[25] The basic structure of UI serves that function well, even though changes are necessary to update the precise details of the program. Furthermore, in our view, the current structure of UI does not create substantial economic costs. Although we acknowledge the potential distortions associated with the current UI structure, the empirical evidence on the size of the impact of these distortions is mixed. For employers, UI may subsidize the use of temporary layoffs, but experience rating is intended to address this distortion. To be sure, the degree of experience rating is imperfect; that is, the tax rate faced by a firm does not increase one for one with increased use of temporary layoffs.[26] More progress toward perfect experience rating may reduce the subsidization of temporary layoffs, although with the trend decline in temporary layoffs, further adjustments in this area appear to be of secondary importance.

For individual workers, the most prominent distortion is the reduced incentive to save for unemployment spells and the reduced incentive to begin a search for a new job immediately after separation.[27] A sizeable literature has established a link between receipt of UI and longer unemployment duration.[28] The magnitude of the effect, however, is not overwhelming, and longer job searches may lead to more productive job matches, although the evidence is admittedly mixed on this latter point. Furthermore, as Feldstein (2005) states, it is important to note that these disincentives are a result of specific program designs, and are not inherent in the program itself. In other words, evidence of the distortions and their effects on the overall economy should not serve as an indictment of the entire UI system; rather, they are known and understandable implications of government intervention and should be addressed when possible. The broader point is that it is important to balance any costs of the distortions against the benefits of the program.

The following is an outline of proposals for reforming the current UI program. Estimates of increased costs and

25. Even those who call for UI reform centered on personalized accounts (for example, Feldstein 2005 and Kling 2006) agree that the government should play a central role in assisting the unemployed.
26. The degree of experience rating is typically measured by the marginal tax cost (MTC) to the firm from an additional dollar of UI benefits paid to one of its (former) workers. The MTC is the present value of the additional tax payments by the firm to the state UI system, associated with the payment by the state to the worker of an additional dollar of benefits. If the MTC is less than one, the firm does not bear the full cost of the UI benefits received by its laid-off workers.
27. Engen and Gruber (2001) present evidence that UI receipt crowds out household savings, although the effect is small in dollar terms, consistent with the small average savings of many families in the United States.
28. See references in Meyer 1995.

revenues associated with these proposals are included. Although each proposal can be evaluated and implemented separately, it would be preferable to enact them all.

Strengthen the Federal Leadership Role in UI

As documented in Section 1, the nature of unemployment in the United States has shifted from cyclical to structural. Although there clearly remain some differences in local labor market conditions, the current pressures on the U.S. labor market are becoming more national. As also documented in Section 1, state differences in the incidence and experience of unemployment have narrowed considerably. Local labor market conditions primarily affect the prospects for reemployment. Given the increasingly national nature of the labor market, UI would better meet its original objectives if the federal government played a more prominent role in this partnership.

When UI was created, there was considerable congressional debate over the state and federal governments' roles. At the time, there was broad consensus that Social Security, established by the same legislation that created UI, should be administered, financed, and managed by the federal government. Although there were no economic reasons for the treatment of UI to be different from the treatment of Social Security, Congress was concerned about infringing on states that had already established their own UI programs, e.g., Massachusetts, Ohio, and Wisconsin.[29] The compromise adopted by Congress was a federal-state hybrid, giving the federal government responsibility over administering and financing the costs associated with administering the UI program, and placing the responsibility for delivering the actual assistance and financing that assistance with the states. Congress agreed to rebate most of the federal tax for states that conformed to federal UI standards (Blaustein 1993).

After 70 years, the result of this compromise is a patchwork system of 53 UI programs, each with different eligibility criteria and benefit levels. Our analysis shows that, since UI was established, unemployment and its associated costs have become more national. Despite these changes, the likelihood that an unemployed worker will receive assistance, and the extent of that assistance, depends on where that worker resides.[30]

In addition to inequities created by disparate rules across states, a significant downside of the current federal-state partnership is the states' real or perceived fears that program generosity will result in adverse changes to their business environment. Federal leadership would avoid interstate competition and a "race to the bottom" in program benefits.[31]

An increased leadership role for the federal government would be characterized by expanding standards for eligibility, duration, and level of benefits; and for financing the program. We sketch the relevant changes below.

Eligibility

- Standardize the base period for determining eligibility to the past four complete calendar quarters prior to job loss. This change, already implemented by a number of states, updates the operational definition of labor market attachment, and reflects the reduced time needed to report earnings.

- Use hours rather than earnings in determining eligibility (Levine forthcoming). Shifting the determina-

29. Baicker and colleagues (1997) present a discussion of the reasons why Social Security and UI were initially set up under different models. At the time, there were no precedents for large-scale government income transfer programs; based on the experience of the Great Depression, it was feared that there could potentially be many more unemployed than retired workers. In fact, the opposite is now the case. There was more public support for providing income support to older people than to workers, especially given the evidence that many older people were living in poverty. From an administrative standpoint, some states had already established limited forms of UI and Congress wanted to encourage more states to adopt similar programs. As a result of these factors, the 1935 Act established a single federal Social Security program for all participants and set standards and created incentives to encourage each of the states to establish its own UI program.
30. Baicker and colleagues (1997) argue that recent changes in the labor market suggest that UI's initial structure should be reconsidered.
31. Blaustein (1993) reports that, in 1931, then-Governor Franklin D. Roosevelt (New York) invited governors of six other states to meet with him to explore the possibility of simultaneous action by the states. In his opening talk, Roosevelt said, "All must act, or there will be no action" (p. 118).

tion of eligibility to hours rather than earnings would bring more low- and moderate-wage workers—who often most need help during periods of unemployment—into the system.

■ Harmonize nonmonetary eligibility standards. The patchwork of nonmonetary eligibility criteria, whereby some states consider voluntary separations for good cause, while others do not, creates unnecessary complexity and inequities in the system.

■ Enable reentrants to the labor force, if determined eligible at the time of job loss or separation, to be eligible to receive the benefits they would have received at the time of job loss. In a fluid labor market, many workers may leave the labor force for some time (e.g., to care for a child or parent) and then return. If the workers had been eligible for UI when they separated from their previous job but did not claim them at that time, they should be eligible for benefits when they return to the labor force.

■ Amend the work test to allow job search for part-time employment. Part-time work is a common feature of the current labor market, accounting for 16 percent of employment in July 2006, and unemployed workers should not be disqualified from receiving benefits because they are searching for part-time work.

The share of unemployed workers who actually received assistance under the UI program averaged 37 percent between 1980 and 2005. The proposals outlined above are designed to increase the number and share of unemployed workers eligible to receive assistance. Given the difficulties associated with precise estimation of how much each of the individual proposals would contribute to increasing the number of potentially eligible workers, we instead estimate the costs associated with raising the recipiency rate in increments to 50 percent (Table 2), which is a reasonable objective for the changes delineated above.

TABLE 2

Estimated Costs Associated with Increasing the Recipiency Rate

Recipiency rate	Increase in number of workers eligible*	Increase in total benefits paid*
0.40	220,000	$1.6 billion
0.45	620,000	$4.5 billion
0.50	1,000,000	$7.4 billion

Source: Authors' calculations.
*Increase in workers and costs (benefits paid) relative to 25-year average.

Benefit Levels and Duration of Benefit Receipt

■ Standardize benefit levels to at least half of lost earnings with a maximum weekly benefit equal to two-thirds of state average weekly earnings. Table 3 provides budgetary estimates for raising the replacement rate in this manner.

■ Develop standard rules to cover benefits for partial unemployment (reduced hours). Standardizing these rules would help to update the program to reflect new labor market realities; California is among the few states with UI for partial unemployment.

■ Establish uniform duration of a minimum of 26 weeks in all programs.

■ Fix the extended benefit triggers so that they are more automatic and workers can receive assistance during economic downturns without disruption.

■ Make benefits more responsive to work experience and local labor market conditions. Currently, UI benefits are set arbitrarily, primarily based on a state's ability and willingness to pay. In general, benefits do not currently reflect an employee's work experience, nor (and more importantly) do they reflect the costs associated with that worker's job loss, including the potential difficulty in finding a new job. We recommend setting benefit levels according to a formula based on a number of factors, including wage history, local labor market conditions, and reason for separation. Workers living in regions with poor labor market conditions might receive a higher level of assistance, or receive assistance for longer periods, or both.

■ Standardize allowances for dependents across all states.

TABLE 3

Estimates of Costs Associated with Increasing the Replacement Rate

Replacement rate	Average weekly benefit at new replacement rate	Increase in average weekly benefit	Increase in total benefits at new replacement rate
40 percent	$295.67	$34.00	$0.3 billion
45 percent	$332.63	$70.96	$0.7 billion
50 percent	$369.59	$107.92	$1.1 billion

Source: Authors' calculations.
Note: Estimates based on the following assumptions: The average replacement rate between 1980 and 2003 was 35.4 percent; the average weekly benefit in 2003 was $261.67; the average weekly wage in 2003 was $739.18; the total number of weeks of compensation in December 2005 was slightly fewer than 10 million.

Financing

- Increase the FUTA taxable wage base, in steps, to $45,000. The last time the UI taxable wage base was adjusted was more than 20 years ago. As a result, the payroll tax is extremely regressive. Raising the taxable wage base to $45,000 would have the benefit of making the tax more progressive while generating new revenue to finance needed reforms in the program. We estimate that increasing the taxable wage base to $45,000 while maintaining the same tax rate would generate $8.7 billion in increased revenue. This would be enough to finance the costs associated with providing more assistance (i.e., raising the replacement rate) to more workers (i.e., increasing the recipiency rate).

Local or regional wage differences, or both, would be respected under this plan, because the harmonization of benefits would be in percentages of earnings, not dollar levels. Treating workers more equally, in terms of program standards, would remove differences that have little or no justification, other than tradition. Given their long experience in providing these services, local and state providers would remain primarily responsible for reemployment assistance, job training, intake, and administration of benefits.

Enable Individuals to Contribute to Private Unemployment Accounts.

Workers who do not have traditional relationships with employers are currently not covered by UI. In order to address this shortfall, individuals, initially the self-employed, would be able to establish and make tax-advantaged contributions, up to a maximum of $200 per year, to their own private unemployment accounts.[32]

Cost estimates for one version of a tax-advantaged saving program are based on the assumptions that participants begin making contributions at age 30; that the starting wage is $30,000, and that wages increase by 3 percent per year; that the participant and the government each contributes 0.25 percent of wages each year into the fund; that the real annual interest rate on the fund is 2 percent; that contributions to and existing funds in these personal saving accounts would not be taxed; and that one-fourth of the self-employed—approximately 2.5 million—would voluntarily participate in the program.[33]

Participants would be able to draw on these funds in order to cushion severe income losses or finance training and job search associated with changing jobs, and withdrawals would be taxed as income.[34] All remaining funds after age 62 would be transferred to existing retirement savings accounts.

32. Eventually, this program might be extended to workers who voluntarily leave their jobs for reasons not currently allowed under the program.
33. The assumed take-up rate for these private unemployment accounts is much higher than the 10 percent take-up rate for Individual Retirement Accounts (IRAs). Unlike IRAs, PUAs would allow workers to accumulate tax-advantaged savings to be accessed in the event of unemployment. In addition, under this proposal, a worker's contribution would be matched dollar for dollar by the government.
34. Under the current tax system, the value of the government subsidy under this saving scheme would be larger for higher-income people. See Batchelder and colleagues (2006) for a discussion of alternative methods of tax treatment.

Based on these assumptions, each participant's fund would grow to approximately $11,000 by the time the worker turned 62. The cost to the government for each worker would be an average of approximately $125 per year, and an average of approximately $300 million per year for the entire program.[35]

Augment UI with a Program of Wage-Loss Insurance.[36]

For some unemployed workers, particularly older workers, the costs of job loss extend beyond reemployment, because new job earnings tend to be lower than old job earnings. Wage-loss insurance offers assistance that is tailored to actual earnings losses. We propose that a wage-loss insurance program be offered in addition to, and not instead of, UI.[37] As proposed in Kletzer and Litan (2001), eligible workers would receive some fraction, perhaps half, of their weekly earnings loss. The fraction could vary by age and worker tenure. Workers who find a new full-time job within 26 weeks of separation would be eligible for wage-loss insurance, potentially reducing the period of UI receipt.

For example, if an eligible unemployed worker earned $600 per week on the previous full-time job and found a new full-time job paying $520 (which is 13 percent less), the supplemental payment would be $40 per week, bringing the total weekly earnings to $560. At a 30 percent earnings loss, the new job would pay $420 per week and the weekly payment would be $90, making the total weekly earnings $510. Although wage-loss insurance might encourage a worker to take a job paying significantly less than his previous job, the supplemental payment would reduce the earnings loss by half.

The Trade Act of 2002, in its reauthorization of Trade Adjustment Assistance (TAA), added a limited program of wage-loss insurance. Called Alternative Trade Adjustment Assistance (ATAA), workers who are more than 50 years old and earning less than $50,000 a year may be eligible to receive half the difference between their previous and new earnings, subject to a cap of $10,000, for up to two years. Workers must find a new full-time job and enroll in the ATAA program within 26 weeks of job loss and cannot receive other income support or training under TAA.[38]

Wage-loss insurance raises the return to job search, especially for workers with greater reemployment losses. A higher wage-loss insurance replacement rate further increases the return to job search, while it reduces a worker's incentive to search for another, higher-paying job.[39] If the supplement interval is fixed and limited relative to the date of job loss, the present value of the supplement declines with the duration of unemployment and poses an incentive for a quicker return to work. As a result, workers who have difficulty finding a job, particularly if it is required to be a full-time job, will receive a smaller supplement than workers with short unemployment spells. This effect does not hold if the duration of wage-loss insurance is linked to time on the new job, rather than time since separating from the previous job.

A wage-loss insurance program will be of greatest value to high-tenure, lower-skilled manufacturing workers. These workers are not high-wage workers; they are earning a wage premium over their alternative. As a result, wage-loss insurance is more valuable to these workers than it is to lower-wage workers. It is less likely that lower-wage displaced workers will experience large earnings losses. This introduces a potentially important distributional issue.

Despite its benefits, wage-loss insurance is not a perfect solution to addressing the costs associated with unem-

35. This estimate does not include lost tax revenue as a result of the accounts' tax-advantaged status.
36. This section borrows from Kletzer (2004).
37. Wage-loss insurance has some clear roots in the literature of optimal UI policy design, most clearly as a response to moral hazard concerns arising from a UI-recipient worker's reduced incentive to leave unemployment due to a reduction in the net return to securing a job. Baily (1978) proposes a front-loaded redundancy payment (equal to expected earnings loss), to be followed by a lower payout for incremental weeks of unemployment. This scheme separates compensation for job loss from UI and avoids creating incentives for extending a spell of unemployment. See Parsons (2000) for a more complete discussion.
38. See Kletzer and Rosen (2005) for a detailed discussion of ATAA and possible extensions.
39. This effect pertains only to the period of eligibility.

ployment. Restricting wage-loss insurance eligibility to full-time employment raises some questions. Earnings losses are a product of both changes in wages and in hours. Either wages or hours, or both, could be lower on the new job. Particularly for lower-skilled workers, most readily available jobs will be part time, as well as at low wage rates. Limiting benefits to those who find one of a scarce supply of full-time jobs is tantamount to rewarding the winners twice. On the other hand, if the supplement is applied to earnings losses arising from changes in hours worked, effective pay on new part-time jobs could be quite high. For example, as discussed by Parsons (2000), if a particular worker's earnings loss arises solely from working part time on the new job, that worker will have an opportunity to work half the hours she was working on her previous job, at three-fourths of the pay. This level of subsidy could induce a sizeable shift to part-time work.

Structuring a program with a relatively short eligibility period, starting with the date of job loss, creates a reemployment incentive, and addresses one of the most commonly expressed UI concerns, but it also limits the compensatory nature of the program. Displaced worker earnings losses are long term (i.e., earnings losses exist five to six years after job loss), well beyond the two years covered by ATAA (Jacobson and colleagues 1993).

The costs of a wage-loss insurance program depend critically on the number of eligible workers, the earnings losses of those reemployed at lower pay, and the duration of unemployment prior to reemployment. (The time it takes to find a job is a common program trigger.) Other critical program characteristics include the duration of wage-loss insurance payments, the annual cap on program payments, and the replacement rate. Based on a program with a two-year duration, a 50 percent replacement rate and a $10,000 annual cap, Brainard and colleagues (2006) estimate that the cost of providing wage-loss insurance for all dislocated workers would be $4.3 billion (in current dollars) for 2003. The same basic program, in 2000, when unemployment was lower and fewer workers experienced a wage loss upon reemployment, was estimated to cost $2.6 billion.[40]

An expanded wage-loss insurance program could be financed through general government revenues or by raising the FUTA taxable wage base or tax rate. Augmenting UI, with assistance tailored to the size of reemployment earnings losses, is possible with relatively small changes in UI program parameters.

More generally, regarding reemployment, the current UI system has a limited relationship with efforts to transition workers back to employment. The Worker Profiling system targets resources to workers at risk of exhausting benefits. Workers receiving UI are required to prove that they are actively seeking employment, primarily by documenting job inquiries and interviews. Most unemployment spells (and benefit receipt) are too short for serious training, but job search assistance can be short term with high return, given its relatively low cost. With the rise in structural unemployment, training needs are likely to expand.[41]

40. These estimates do not reflect possible savings from reduced duration of UI receipt due to the reemployment incentive. For more details on the estimates, see Brainard and colleagues (2006), Table 7.
41. There is a bureaucratic wall of separation between UI and federally supported training programs in the United States. In any event, the amount of funds currently appropriated for training is inadequate to provide any kind of serious training to all long-term unemployed workers.

IV. Conclusion

The federal-state structure of UI is a relic of its 1935 establishment, and a Depression-era concern over the constitutionality of plans for the federal government to levy taxes for unemployment assistance. Federal programs are now well established. More importantly, changes necessary to move UI into the twenty-first century require significant federal leadership. The very basic structure of UI must be reformed, broadening from the single-employer, full-time worker, temporary layoff model to an approach that accommodates permanent job loss, part-time or contingent work, self-employment, and the incidence of job loss and national, rather than local or regional, unemployment. American workers are currently facing considerable pressure due to continued technological change and intensified competition resulting from globalization. Despite significant changes in U.S. labor market conditions, there have been no major changes in the basic structure of UI since it was established 70 years ago. Reforming the nation's UI program is necessary in order to make it relevant to the labor market of the twenty-first century.

Appendix

TABLE A1

State UI Program Statistics

State	Average annual earnings	Annual earnings required for eligibility	Maximum weekly benefit amount	Taxable base	Minimum, maximum, and new employer tax rates
AL	$32,640	$2,114	$230	$8,000	0.44%, 6.04%, 2.70%
AK	$37,179	$1,000	$248–$320	$28,700	1.21%, 5.40%, 4.15%
AZ	$36,017	$2,250	$240	$7,000	0.02%, 5.40%, 2.00%
AR	$29,543	$1,836	$395	$10,000	0.1%, 10.00%, 2.90%
CA	$44,056	$1,125	$450	$7,000	1.3%, 5.40%, 3.40%
CO	$40,139	$2,500	$435	$10,000	0.3%, 5.40%, 1.70%
CT	$52,677	$780	$465–$540	$15,000	0.5%, 5.40%, 2.90%
DE	$42,623	$920 (in 2 HQs)	$330	$8,500	0.3%, 8.20%, 2.20%
DC	$61,271	$1,950	$359	$9,000	1.3%, 6.60%, 2.70%
FL	$34,362	$3,400	$275	$7,000	0.32%, 5.40%, 2.70%
GA	$38,174	$1,680	$320	$8,500	0.03%, 6.21%, 2.70%
HI	$33,223	$130	$459	$34,000	0%, 5.40%, 2.40%
ID	$29,208	$1,658	$322	$29,200	0.477%, 5.40%, 1.67%
IL	$42,547	$1,600	$350–$475	$11,000	0.3%, 8.10%, 3.40%
IN	$34,890	$2,750	$390	$7,000	1.1%, 5.60%, 2.70%
IA	$31,767	$1,380	$334–$410	$22,000	0%, 8.0%, 1.0%
KS	$32,218	$2,790	$386	$8,000	0.07%, 7.40%, 4.33%
KY	$32,894	$2,945	$401	$8,000	0.5%, 9.50%, 2.70%
LA	$31,573	$1,200	$258	$7,000	0.1%, 6.20%, industry avg.
ME	$30,818	$3,612	$320–$480	$12,000	0.53%, 5.40%, 1.78%
MD	$41,051	$900	$340	$8,500	0.6%, 9.0%, 2.30%
MA	$49,892	$3,000	$551–$826	$14,000	1.12%, 10.96%, 2.53%
MI	$40,945	$2,964	$362	$9,000	0.06%, 10.30%, 2.70%
MN	$40,832	$1,250	$350–$515	$24,000	9.3% + 14% of taxes due, 9.3% + 14% of taxes due, 2.32% + 14% of taxes due
MS	$27,738	$1,200	$210	$7,000	0.4%, 5.40%, 2.70%
MO	$34,822	$1,950	$270	$11,000	0%, 6.0%, 2.70%
MT	$26,672	$5,000 (in 2 HQs)	$362	$21,600	0.13%, 6.50%, industry avg.
NE	$30,792	$2,500	$288	$8,000	0.39%, 6.76%, 2.50%
NV	$36,073	$600	$362	$24,000	0.25%, 5.40%, 2.95%
NH	$39,595	$2,800	$372	$8,000	0.01%, 6.50%, 2.70%
NJ	$47,854	$2,460	$521	$25,800	0.1825%, 5.40%, 2.68%
NM	$29,738	$1,799	$312–$360	$17,900	0.03%, 5.40%, 2.0%
NY	$52,768	$2,400	$405	$8,500	0.9%, 8.90%, 3.40%
NC	$34,479	$3,749	$457	$17,300	0%, 5.70%, 1.20%

Source: U.S. Department of Labor 2006a, 2006b.
HQ = high quarter, AWW = average weekly wage.

continues

TABLE A1

State UI Program Statistics *(continued)*

State	Average annual earnings	Annual earnings required for eligibility	Maximum weekly benefit amount	Taxable base	Minimum, maximum, and new employer tax rates
ND	$28,530	$2,795	$351	$20,300	0.4%, 9.44%, 1.87%
OH	$36,102	$3,840	$343–$462	$9,000	0.5%, 10.0%, 2.70%
OK	$30,043	$1,500	$317	$13,500	0.2%, 7.40%, 1.80%
OR	$34,982	$8,080	$445	$28,000	1.2%, 5.40%, 3.10%
PA	$38,166	$1,320	$497–$505	$8,000	0.3%, 9.20%, 3.50%
PR	$20,901	$280	$133	$7,000	1.4%, 5.40%, 1% of taxes due
RI	$35,708	$2,013	$492–$615	$16,000	1.69%, 9.79%, 2.34%
SC	$31,241	$900	$303	$7,000	1.24%, 6.10%, 2.64%
SD	$27,010	$1,288	$274	$7,000	0%, 7.0%, 1.20%
TN	$34,618	$1,560	$275	$7,000	0.15%, 10.0%, 2.70%
TX	$39,022	$2,035	$350	$9,000	0.4%, 7.64%, 2.70%
UT	$31,325	$2,600	$383	$24,000	0.4%, 9.40%, 1.60%
VT	$32,626	$2,582	$394	$8,000	0.8%, 6.50%, 1.0%
VA	$29,823	$2,500 (in 2 HQs)	$347	$8,000	0.1%, 6.20%, 2.50%
VI	$40,093	$1,287	$416	$20,000	0%, 6.0%, 1.0%
WA	$38,723	$5,819 (in 2 HQs)	Lesser of $496 or 63% of AWW	$30,900	0.47%, 6.12%, industry avg. + 15%
WV	$29,105	$2,200	$391	$8,000	1.5%, 7.50%, 2.70%
WI	$34,105	$1,530	$341	$10,500	0%, 8.90%, 3.25% or 3.40%
WY	$30,722	$2,200	$349	$17,100	0.54%, 9.04%, industry avg.

Source: U.S. Department of Labor 2006a, 2006b.
HQ = high quarter, AWW = average weekly wage.

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