rise, however, occurred in the 20-year period ending in 1960, when the purchasing power of a weekly average benefit rose by 42 percent. Since 1970, in fact, the average weekly real benefit has been quite stable, fluctuating within a range of $84 to $86 (1978 dollars) (9).

Taking account of both average weekly benefits and average annual duration of regular unemployment benefits, the annual average level of benefits has risen more substantially than the average weekly benefit amount. While below levels reached during the latest recession, the 1978 annual benefit average in constant 1978 dollars ($1,113) was well over twice the annual amount in 1940.

Individual State Programs

Under the Federal-state UI system enacted by Congress in 1935, the states were given the responsibility, within fairly broad Federal guidelines, to develop programs suited to conditions within individual states. Thus the states are free to determine significant matters such as the taxable wage base (if above the Federal guideline), experience-rating methods and tax rates, eligibility and disqualification rules, benefit amounts and duration, and other provisions of their programs. The state laws understandably reflect a wide range of political choices which affect tax and benefit patterns. At the same time there are a host of economic factors (such as geography, industrial composition, and urbanization) which, through their effect on employment and unemployment, influence the workings of the state programs. It is therefore not surprising to find a high degree of variation in programs from one state to another.

Tables 7 and 8 reveal some of this diversity by providing an overview of the range of employer tax rates and average weekly benefits in a recent year (1977).

Average employer tax rates as a percentage of total wages ranged from lows of 0.41 percent in Texas and 0.51 percent in South Dakota to highs of 2.44 percent in Hawaii and 2.43 percent in Alaska. It should be noted that nine of the ten states with the highest average tax rates levied the tax on a wage base

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9. The average weekly covered wage in constant dollars declined about 4 percent from 1970 to 1978. In part, this may reflect changes in UI coverage which occurred in 1972 and 1978, possibly adding some lower-earners to coverage. Data are not available to test this hypothesis.

Table 7

EMPLOYER TAX RATES BY HIGHEST AND LOWEST STATES[a]
1977

State	Taxable wage base	Average tax rate as percent of		Range of rates[b]	
		Total wages	Taxable wages	Minimum	Maximum
Ten highest states[c]					
Hawaii................	$ 9,300	2.44	3.46	3.5	3.5
Alaska................	10,000	2.43	4.38	2.3	4.8
Oregon................	8,000	2.06	3.30	2.6	4.0
Rhode Island..........	4,800	1.93	3.94	3.2	5.0
California............	7,000	1.92	3.47	1.4	4.9
Nevada................	6,520	1.92	3.21	1.1	3.5
Vermont...............	6,000	1.80	3.04	1.0	6.1
Washington............	7,800	1.77	3.00	3.0	3.0
New Jersey............	5,800	1.75	3.73	1.2	6.2
Massachusetts.........	4,200	1.74	4.38	3.9	5.1
Ten lowest states[c]					
Texas.................	4,200	.41	.97	0.1	4.0
South Dakota..........	4,200	.51	1.05	0.0	2.7
Virginia..............	4,200	.67	1.53	0.85	2.7
Indiana...............	4,200	.74	1.94	0.3	3.3
West Virginia.........	4,200	.82	2.05	0.0	3.3
Tennessee.............	4,200	.86	1.91	0.75	4.0
Nebraska..............	4,200	.89	2.02	0.1	3.7
Louisiana.............	4,200	.91	2.13	0.4	3.0
New Hampshire.........	4,200	.91	1.91	0.15	4.0
North Carolina........	4,200	.95	1.97	0.5	4.7

a. Federal tax of 0.7% on taxable wages is in addition to these rates.
b. Percent of taxable wages--rate assigned to individual employers in state.
c. Ranked on basis of taxes as a percent of total wages. Does not include Puerto Rico.

Source: U.S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1976, and supplements.

Table 8

BENEFITS AS PERCENT OF WEEKLY WAGE AND RELATED DATA
BY HIGHEST AND LOWEST STATES[a]
1977

State	Benefits as percent of weekly wage	Average weekly benefit	Average duration of benefits (weeks)	Exhibit: Maximum weekly benefit[b]
Ten highest states				
Iowa[b]	47.6	$ 95	12.9	$148
Hawaii	45.7	91	16.2	134
North Dakota	45.7	82	13.6	131
South Dakota	44.9	74	11.4	109
District of Columbia[b]	42.5	105	20.5	172
Wisconsin	42.0	88	12.6	149
Pennsylvania[b]	41.9	92	14.5	160
Colorado	41.5	87	10.8	137
Rhode Island[b]	41.1	75	15.2	140
Vermont	40.9	73	15.7	115
Ten lowest states				
Alaska[b]	20.1	87	18.9	120
Texas	27.2	57	12.8	91
West Virginia	29.0	65	9.3	166
Indiana[b]	31.2	70	9.5	124
New Mexico	31.2	59	17.1	98
New York	31.5	76	20.3	125
California	31.9	73	14.3	104
Florida	32.9	63	13.6	95
Oklahoma	32.9	65	14.9	132
Tennessee	33.6	63	11.2	100

a. Includes taxable and reimbursable.
b. Includes dependents' allowances. Maximum benefit applies to 1979.

Source: Based on U.S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1976 and supplements.

above that required by the Federal government (then $4,200). However, the same states tended to rank highest when taxes are related to taxable wage bases. Moreover, minimum rates for individual employers were significantly higher in those states than in the ten lowest states, and maximum employer tax rates were somewhat higher. While Table 7 places emphasis on differences in average tax rates, and these are sizable, they are not as great as the range of rates for individual employers under experience rating within many single states.

Table 8 compares average weekly benefits as a percentage of average weekly earnings among the states in 1977. On this basis, Alaska ranked lowest, with average benefits equal to only 20.1 percent of the average wage, and Texas was second from lowest, at 27.2 percent. The highest states in this comparison were Iowa, with benefits at 47.6 percent of average wages, and Hawaii, 45.7 percent. It seems significant that in eight of the ten states with the highest percentage of benefits to earnings, the average weekly wage was below the U.S. average (the exceptions were the District of Columbia and Pennsylvania). Among the lowest ten states in this ratio, five had average wages below the national average and five above. The state with the lowest ratio of average benefits to wages, Alaska, had average wages more than twice the U.S. average. In the absolute amounts of average weekly benefits, the state provisions are more uniform; in 1977 there was an 84 percent range between the average benefit amounts paid in Texas ($57), the lowest shown in the table, and the District of Columbia ($105), the highest, whereas there was a 137 percent difference in the benefit-wage ratios among the 20 states.

Since a jobless worker's individual benefits are determined by his own earnings record (and not directly by the statewide average wage), the comparison of average weekly benefits for the mix of previous workers who happened to be unemployed at the time with average weekly wages for all workers in a recent period has limited meaning. As the last column of Table 8 indicates, the maximum weekly benefit available for a worker who qualifies (based on his employment and wage record) is far higher than the average benefit amounts shown for those who received benefits in 1977 (10). In fact the average weekly

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10. Under different state laws, an individual may receive from 50% to 66-2/3% of his weekly base earnings up to the maximum potential benefit level. Some states provide that lower-paid workers will receive a higher fraction of base earnings than higher-paid workers.

benefit as a percentage of the maximum potential benefit in these 20 states fell as low as 39 percent in West Virginia and 49 percent in Oklahoma. The average benefit was 70 percent or more of the maximum in only two of the states, Alaska and California.

Table 9 provides a somewhat different and longer-range view of the state-by-state variations in benefit costs, which are defined here as the cumulative total of benefits paid plus benefit reserves, as a percentage of the cumulative total covered payroll, for the period 1940 through 1977. In this comparison, benefit-cost rates have ranged from lows of 0.436 percent of total payroll in Texas and 0.529 percent in Virginia to highs of 2.421 in Alaska and 1.893 percent in Rhode Island. While experience in a single year can vary from long-run averages, it seems significant to note that eight of the highest ten states in average employer tax rates in 1977 (Table 7) were also among the highest ten benefit-cost rate states throughout the period from 1940 to 1977 (11). Similarly, many of the states with lowest employer tax rates in 1977 (e.g., Texas, South Dakota, and Virginia) also ranked low in cumulative benefit-cost rates.

In an effort to determine the reasons for the wide interstate variation in benefit-cost rates, Saul J. Blaustein and Paul J. Kozlowski developed some interesting results. Their study took into account the ratio between weekly benefit amounts and the average weekly wage; the potential duration of benefits, the minimum qualifying period requirement; the type of disqualification imposed for voluntarily quitting a job; and the state insured unemployment rates. (The unemployment rate was used as a proxy variable for various economic factors that may affect benefit costs through their effects on unemployment.) Among the factors considered, the study found that differences in state insured unemployment rates in the three years examined (1973, 1974, and 1975) were the major factor making for interstate differences in benefit-cost rates. According to the authors: "The variation among states in insured unemployment rates explained about 90 percent of the total variation in benefit cost rates in 1973, 88 percent in 1974, and 83 percent in 1975" (12).

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11. These are Alaska, Rhode Island, Washington, New Jersey, California, Massachusetts, Nevada, and Vermont.

12. Saul J. Blaustein and Paul J. Kozlowski, Interstate Differences in Unemployment Insurance Benefit Costs: A Cross Section Study, The W. E. Upjohn Institute for Employment Research, Kalamazoo, 1978, p. 29.

Table 9

AVERAGE BENEFIT-COST RATE UNDER STATE UNEMPLOYMENT COMPENSATION LAWS[a]
Cumulative, 1940 - 1977

Rank	State	Cost rate (percent of total payroll)	Rank	State	Cost rate (percent of total payroll)
	ALL STATES[b]	1.137	26	Wisconsin	1.048
1	Alaska	2.421	27	Mississippi	1.035
2	Rhode Island	1.893	28	West Virginia	1.020
3	Washington	1.658	29	Kansas	1.008
4	New Jersey	1.653	30	New Mexico	1.003
5	California	1.5[illegible]	31	Alabama	.998
6	Massachusetts	1.526	32	North Carolina	.991
7	Nevada	1.519	33	Maryland	.981
8	Vermont	1.502	34	South Carolina	.981
9	Maine	1.437	35	Delaware	.977
10	Idaho	1.421	36	Minnesota	.952
11	Connecticut	1.402	37	Arizona	.921
12	Pennsylvania	1.371	38	Illinois	.901
13	Oregon	1.362	39	Georgia	.866
14	New York	1.318	40	Missouri	.865
15	North Dakota	1.295	41	Ohio	.837
16	Hawaii	1.282	42	District of Columbia	.805
17	Michigan	1.273	43	Oklahoma	.781
18	Montana	1.245	44	Nebraska	.772
19	Kentucky	1.233	45	Indiana	.746
20	Arkansas	1.113	46	Iowa	.743
21	Louisiana	1.091	47	South Dakota	.719
22	New Hampshire	1.084	48	Florida	.663
23	Tennessee	1.075	49	Colorado	.635
24	Wyoming	1.069	50	Virginia	.529
25	Utah	1.064	51	Texas	.436

a. Cumulative total of benefits paid plus benefit reserves as percent of cumulative total covered payroll. Data from U.S. Department of Labor based on tabulations by state agencies.
b. Excludes data for Puerto Rico.

Source: Division of Research and Statistics, Ohio Bureau of Employment Services.

Whether this conclusion holds over a longer period remains to be tested. In any event, subsequent sections of this report will explore some statutory provisions of state programs which appear to have a strong potential for affecting benefit-cost rates.

III.

SOME ISSUES IN BENEFITS POLICY

Many questions and uncertainties lie behind the broad picture given in the last section. How effectively does the present system operate? Are present benefit levels and duration adequate? What is the best way to deal with the "nonregular" workers--seasonal workers, pensioners, striking workers, trainees, and others? Should changes be made in the tax rates, or the wage base subject to tax? Are costs oppressive to employers? Should the Federal government help further with financing, and, if so, under what circumstances? What about experience rating--does it actually serve the original goal of encouraging the employer to stabilize employment; has it shown unfortunate side effects? What about contentions that unemployment insurance actually discourages acceptance of available jobs, raises the cost of hiring, and in other ways generates unemployment?

Many of these problem areas will be explored in this and following sections, presenting current thinking as expressed by those advocating change and those preferring the status quo, plus such facts as may be relevant to each issue. This section concentrates on issues related to benefits policy, mainly under the regular Federal-state program (generally allowing benefits of 26 weeks. Subsequent sections deal with extended benefits programs (1).

Who Should Be Eligible?

Some thorny questions revolve around the general issue of whether or not certain kinds of employees should be eligible for unemployment insurance benefits. In order to maintain the financial soundness and fairness of the system, should some applicants for benefits be disqualified? Under what circumstances? Should certain broad categories--i.e., seasonal workers, students, etc.--be excluded from eligibility altogether? If not, what safeguards might be utilized to prevent abuse?

The clash between protagonists goes on endlessly, in a myriad of detail, some irrelevant to this study. But certain

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1. Factual information in this section, except as noted, is based on Comparison of State Unemployment Insurance Laws, January 1980, U.S. Department of Labor, Employment and Training Administration.

broad issues recur, and give a general picture of the scope of the problems.

To qualify for benefits, an unemployed individual must establish that he is a bona fide member of the labor force, as demonstrated by an appropriate employment history. He must also show that he is able to work, available for work, and that his unemployment is not of his own making. In addition, most states require that a claimant be "actively seeking" work, or making a reasonable effort to find a job. All of these points can raise awkward problems of interpretation and administration.

Attachment to Labor Force

Insurance implies compensation for a condition or privilege which the beneficiary has lost. In the case of unemployment insurance, a question can arise as to whether anything actually was lost--i.e., is the claimant a bona fide member of the labor force? The need is to establish whether or not the claimant has engaged in "substantial and recent" work, and to this end several types of measures are applied by the various states.

All states require that, to qualify for benefits, persons must have earned a specified amount of wages or must have worked a designated period of time, or both, within a 52-week base period. Many states specify that a claimant must have earned a multiple of the minimum weekly benefit amount, typically 30, 36, or 40 times the benefit amount; some of these states also require that the work be spread over two quarters, in order to prevent a high-wage worker from qualifying for benefits after working only one quarter. Another formula used in several states is based on a multiple of the claimant's highest quarter of wages; the most common multiple--1½ times--requires that the claimant have earned one-third of his wages outside the high quarter.

In a number of states, qualification is on the basis of weeks of work in the base year, generally with specified minimum weekly earnings. Finally, in several states qualification requires a flat amount of wages earned during the base year. The flat formula has been criticized because it can enable highly paid claimants to qualify for benefits after a very short period of working time, unless modified to require that the work be spread over a minimum period of time.

Despite their wide variation, the state formulas for the most part require, at least implicitly, both a minimum level of earnings in the base year and a record of work longer than one quarter (2). All the approaches, of course, depend for their effectiveness on appropriate numbers--how many weeks of work, how large a multiple, etc.

The circumstances under which a period of unemployment began also provide clues as to the claimant's attachment to the labor force. If he himself caused the separation, is employment something he lost or something he deliberately threw away? The case is analagous to life insurance rendered invalid by suicide, or cancelled fire insurance for the property owner who commits arson. Workers who leave their jobs voluntarily and those discharged for misconduct in connection with the job raise numerous problems. All states specify that unless the employee has "good cause" for leaving voluntarily, he will be disqualified for some specified period of time, but there is much variety in what is considered "good cause." In some states, even a considerable personal reason is deemed adequate, whereas in others the provisions are quite restrictive. Detail in this area tends to remain in flux, with a recent movement toward more restrictive policies. Interpretations of the law are sometimes difficult, and disqualifications for voluntary separations and misconduct generate numerous appeals annually.

Rules covering discharges for misconduct also vary from state to state. Rather commonly, the period of disqualification relates to the seriousness of the offense, with especially heavy disqualification for dishonest or criminal behavior.

Unemployment associated with labor disputes gives rise to another type of disqualification. In order to avoid the possibility of serious drains on reserves and to maintain a certain neutrality with reference to labor disputes, the states have generally identified this kind of unemployment as outside of coverage. Generally, benefits are postponed for an indefinite period geared to the duration of the work stoppage; some states, however, modify provisions for workers idled by a strike who are actively seeking full-time work elsewhere. Only two states--New York and Rhode Island--permit payment of unemployment benefits to striking workers; New York does so after a waiting period of eight weeks, Rhode Island after seven weeks.

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2. There are some exceptions; e.g., as of 1980 California required only a flat amount ($900) of earnings in the base year; Washington required 680 hours of work, with no specified minimum earnings.

Whether striking workers have a valid claim for unemployment benefits, which are financed by their employers, has long been controversial. In 1979 the U.S. Supreme Court ruled that a state is free to pay unemployment benefits to strikers if it chooses to do so. The Court did not base its decision on the merits of the issue, but rather on the view that Congress had not intended to restrict the states' freedom to legislate in this area (3).

Available for Work

The stipulation that a claimant must be available for work results in a bewildering array of regulations. Thirty-two states require that the individual be available for "work"; 12 states require that he be available for "suitable work"; and nine others define suitable work as his usual occupation or one for which he is fitted by prior training or experience; some even specify suitability with regard to the claimant's age and physical condition.

The difficulty comes from judging what an applicant would do if he were offered a job of the kind specified in state law. In the final analysis, the only way to tell is by observing what happens when the event actually transpires. Much hangs on the claimant's intent, and this is hard to establish.

Certain categories appear more likely than others not to be truly available for work, and consequently many states have special provisions regulating them. These include seasonal workers, pensioners (4), mobile workers, students, and part-time workers. Married women also sometimes are considered to be indifferently attached to the labor force, especially if they are the secondary earner in the family, and if their unemploy-

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3. New York Telephone Co. et al. v. New York State Department of Labor et al., March 21, 1979. In its decision the Supreme Court affirmed a lower court ruling, which held that, although the New York law conflicts with the policy of free collective bargaining established in Federal law, "the legislative histories of the National Labor Relations Act (NLRA) and the Social Security Act (SSA) indicate that such conflict was one which Congress has decided to tolerate."

4. Federal legislation in 1976 and 1977 requires the states to reduce UI benefits for claimants receiving pensions by the amount of the pension, effective April 1, 1980.

ment is in some way associated with marital obligations. The effect of pregnancy on work availability is especially difficult to spell out in regulations, and disqualifications in this area often have been appealed (5). Regulations particularly affecting women have seen much change in recent years, with the result that there is a great deal of disparity among the states.

Since 1972, Federal law has specified that states must not deny benefits to an otherwise eligible beneficiary for any week during which he is attending an approved training course, even if during this period the individual is not available for work, or making an active search for work. In general, only vocational or basic education training qualifies as approved training.

The importance of eligibility for benefits should not in any way be underrated. If the regulations are too generous or are administered carelessly, costs will escalate and the general public will lose respect for the system. On the other hand, arbitrary, outmoded standards can lead to injustice and defeat the purposes of the UI program (6).

Waiting Period

When the original unemployment insurance law was drafted, the Social Security Board strongly advocated a waiting period of at least two weeks before a qualified person could begin to receive benefits. Initially all state laws required waiting periods ranging from two to four weeks. The reasons were twofold: to conserve funds for the payment of longer durations of benefits, and to allow time needed to process initial benefit claims (7). Apparently because UI tax proceeds were sufficient to finance longer periods of unemployment than originally estimated, and to relieve perceived hardship of individual beneficiaries, the states have reduced the waiting period

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5. Federal legislation in 1976 prohibits disqualification on basis of pregnancy alone.

6. For a fuller discussion of eligibility problems, the interested reader is referred to George S. Roche, Entitlement to Unemployment Insurance Benefits, The Upjohn Institute, Kalamazoo, 1973, 99 pp., as a starting point.

7. William Haber and Merrill G. Murray, Unemployment Insurance in the American Economy, Richard D. Irwin, Homewood, Illinois, 1966, p. 200.

substantially. By 1980 all but 12 jurisdictions required a waiting period of only one week, and the remaining 12 had completely eliminated the waiting period requirement.

While some observers hold that even the one-week waiting period should be abandoned, many disagree. The major reasons for retaining the waiting week are held to be: to furnish an incentive to look for other work immediately, or even to find ways of avoiding losing a job; to allow time for processing claims; and to either hold down program costs or to use available funds for other purposes which state legislators deem more desirable. Advocates of the waiting period also point out that it generally does not affect the duration of benefits but rather their distribution--from the first week, when they are presumably needed least, to the last week, when they are probably needed more.

Benefit Determination

The amount of benefits a jobless worker may receive during a spell of unemployment varies with his weekly benefit amount (WBA) and the potential duration of his benefits. The WBA is calculated on the basis of some measure of the worker's past earnings, within minimum and maximum state-imposed limits. In most states the potential duration of benefits also depends on a worker's previous earnings or length of employment. Several states also provide additional allowances for certain dependents.

Weekly Benefit Amount. State formulas are designed to compensate a claimant for a fraction of the wage loss during a relatively short-run period of unemployment. In determining the weekly benefit amount, the majority of the states--31--use a fraction of earnings in the beneficiary's high quarter. In 13 of these states, the fraction is 1/26 of such earnings; i.e., the weekly benefit amount will be equal to 50 percent of the claimant's wages (up to a specified limit) in the high quarter. Recognizing that some unemployment may have been experienced in the high quarter, 19 states adjust the fraction to provide benefits equal to more than 50 percent of the high-quarter earnings.

Some observers hold that the high-quarter benefit formula tends to produce an artificially high average, and that formulas based on earnings for longer periods provide a more realistic average wage. In the states not using the high-quarter base, four relate benefits to an annual wage formula, and nine use a percentage of average weekly earnings in a period other than the high quarter.

Whichever formula is used, many jurisdictions use a weighted benefit schedule which provides a relatively greater share of base period earnings to claimants with lower earnings (8).

Maximum and Minimum Benefit Limits. Thirty-six states have a flexible maximum weekly benefit, usually defined as a certain percentage of the average weekly wage in covered employment in the state during a recent one-year period. The maximum amounts are generally adjusted annually (a few semi-annually) to reflect wage movements, with the revised amounts becoming effective usually in July. This is an automatic device that prevents benefits from falling behind wage increases. The maximum for an individual claimant among the states ranges from 50 percent to 70 percent of the average statewide covered weekly wage.

The states also provide minimum weekly benefits, generally in the form of a flat amount. In 1978 the amounts ranged from $5 to $35; a few states use a flexible minimum for those with low wages and often with only marginal attachment to the labor force. Separate provisions apply in all states to workers who are partially employed.

Dependency Allowances. Thirteen jurisdictions provide some allowances for dependents (9). All of these include children under a specified age, and some include other dependents such as nonworking spouses. While the weekly allowances per dependent appear small, at flat amounts of $13 or less in 11 jurisdictions, and there are restrictions or limits, dependency allowances can increase the maximum potential benefits for the duration of unemployment benefits by sizable amounts in some states (10).

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8. For example, Minnesota, which uses an average-weekly-wage formula, computes the weekly benefit amount at 60% of the first $85 of wages, 40% of the next $85, and 50% of the remainder of the claimant's average weekly wage.

9. Alaska, Connecticut, District of Columbia, Illinois, Indiana, Iowa, Maine, Maryland, Massachusetts, Michigan, Ohio, Pennsylvania, and Rhode Island.

10. For example, in Massachusetts a claimant with dependents could receive a maximum of $5,910 for a spell of unemployment, almost $2,000 more than a similar claimant without the dependency allowance; in Ohio, the dependency allowance provides a potential addition of $1,924 to maximum benefits; and in Connecticut the difference is $1,742. In some

The question of whether a UI system should include dependency allowances has long been controversial. The rationale for them is that workers with dependents need a larger replacement of lost wages than those without dependents. Many observers oppose such allowances on grounds that they violate the insurance principle of UI, by introducing the element of need. On the other hand, advocates say that a distinction should be made between "presumptive need," which they agree is not an objectionable criterion, and a test of need, the latter of the type used in determining welfare eligibility (11). Whatever the merits of these arguments pro and con, the large majority of states have chosen not to provide supplemental allowances for dependents.

Duration of Benefits. How long should jobless workers be able to collect regular UI benefits? Originally the states provided for about 15 weeks of regular benefits, but gradually the period has been lengthened. More than four-fifths of all jurisdictions provide for a maximum of 26 weeks for a year of unemployment; in only nine states is the duration longer (12).

Perhaps the major issue concerning the duration of benefits is whether all workers should receive benefits for the same (uniform) number of weeks or whether the duration period should be variable, limited by the amount of wage credits or length of employment a worker had during the base period. Among the arguments in favor of uniform benefit duration are that it is more in accordance with need (i.e., those with shortest periods of unemployment probably need longer benefits because they have less in savings, etc.), that the uniform duration is simpler to justify to claimants, and that it is easier to administer. Opponents of the notion of uniform duration see variable duration as providing more equity for those with long periods of previous employment, as consistent with the idea that employers

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jurisdictions the dependency allowance does not raise the maximum potential benefit, although it can increase benefits below the maximum; this is the case in the District of Columbia and in Maryland.

11. This view is expressed by William Haber and Merrill G. Murray, op. cit., p. 193 ff.

12. Three states allow 28 weeks; three, 30 weeks; two, 34 weeks; and one, 36 weeks. Several jurisdictions also allow the regular 26-week benefit period to be extended under certain circumstances (see Table 10).

should be responsible for benefits in proportion to the unemployment they have caused, and as strengthening the attachment-to-work-force test.

In any event, the state legislatures have moved generally in the direction of favoring a variable duration period. Initially 16 states provided uniform maximum duration; currently only 11 jurisdictions provide the same benefit period for all claimants who qualify. The remainder vary the duration according to a worker's previous wage credits or length of employment.

Maximum Annual Benefit. The maximum potential benefit amount during a year is computed by multiplying the claimant's weekly benefit amount by the duration of unemployment, both up to the state maximums; however, many states impose an additional limit, specifying that the annual amount can be no greater than a fraction (often one-third) of the claimant's base-period wages.

Table 10 provides data on the maximum potential amount and duration of benefits in a benefit year by state, as reported by the U.S. Department of Labor in January 1980. To a degree, though not perfectly, the maximums appear to reflect state differences in per capita income. The analogy is more relevant in the case of the states with lowest potential benefits. For example, of the 17 states with annual benefit maximums of $3,000 or less, 15 had per capita incomes ranging from 4 percent to 27 percent below the national average in 1978 (13).

On the other hand, only three of the six states with maximum annual benefits of $5,000 or more were above the U.S. average in per capita income. The District of Columbia, with the highest maximum UI benefits, had per capita income 28 percent above average; Connecticut, which ranked second in maximum potential benefits, had per capita income 14 percent above the national average. For states with high maximum benefits, dependency allowances and benefit duration appear to exert a strong influence. Five of the six jurisdictions with potential benefits of $5,000 or more provide dependents' allowances, and four permit more than 26 weeks duration for regular benefits.

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13. Puerto Rico and the Virgin Islands are excluded from these comparisons.

Table 10

MAXIMUM POTENTIAL AMOUNT AND DURATION
OF BENEFITS IN A BENEFIT YEAR, BY STATE

State	Maximum potential benefits[a]	
	Amount[b]	Weeks
- - - Uniform potential duration for all eligible claimants - -		
Connecticut	$3,484 - $5,226	26[a]
Hawaii	3,744[a]	26[a]
Illinois	3,[illegible]58 - 4,602	26[c]
Maryland	2,756[b]	26
New Hampshire	2,652	26[d]
New York	3,250	26
Pennsylvania	4,860 - 5,100	30
Puerto Rico	1,440	20[a]
Vermont	2,990	26
Virgin Islands	2,132	26
West Virginia	4,648	28
- - - - - Maximum potential duration varying with wage credits or weeks of employment - - - - -		
Alabama	2,340	26
Alaska	2,520 - 3,360	28
Arizona	2,340	26
Arkansas	3,100	26
California	3,120[a]	26[a]
Colorado	3,692	26
Delaware	3,900	26
District of Columbia	6,154[b]	34
Florida	2,470	26
Georgia	2,340	26
Idaho	3,146	26
Indiana	1,924 - 3,224	26
Iowa	3,406 - 3,848	26
Kansas	3,198	26

a. Benefits extended under state program when unemployment in state reaches specified levels--California and Hawaii by 50% and Connecticut by 13 weeks. In Puerto Rico, benefits extended by 32 weeks in certain industries, occupations or establishments when special unemployment situation exists. Benefits also may be extended in all states, either on a national or state basis, during periods of high unemployment by 50%, up to 13 weeks, under the Federal-State Extended Compensation Program.

b. When two amounts are given, higher includes dependents' allowances. In the District of Columbia and Maryland, same maximum with or without dependents.

Table 10 (cont.)

MAXIMUM POTENTIAL AMOUNT AND DURATION
OF BENEFITS IN A BENEFIT YEAR, BY STATE

State	Maximum potential benefits[a] Amount[b]	Weeks
- - - - - Maximum potential duration varying with wage credits or weeks of employment - - - - -		
Kentucky	3,120	26
Louisiana	4,172	28
Maine	2,496 - 3,744	26
Massachusetts	3,930 - 5,910	30
Michigan	2,522 - 3,536	26
Minnesota	3,900	26
Mississippi	2,340	26
Missouri	2,730	26
Montana	3,094	26
Nebraska	2,756	26
Nevada	2,990	26
New Jersey	3,198	26
New Mexico	2,756	26
North Carolina	3,380	26
North Dakota	3,406	26
Ohio	3,328 - 5,252	26
Oklahoma	3,432	26
Oregon	3,302	26
Rhode Island	3,120 - 3,640	26
South Carolina	2,886	26
South Dakota	2,834	26
Tennessee	2,600	26
Texas	2,730	26
Utah	4,932	36
Virginia	3,172	26
Washington	4,110	30
Wisconsin	5,270	34
Wyoming	3,406	26

c. Claimants are eligible for the lesser of 26 weeks of benefits or their total base-period wages.

d. Claimants eligible for a weekly benefit amount of more than $102 will be eligible for less than 26 weeks of benefits because of schedule of maximum potential benefits established by law.

Source: Comparison of State Unemployment Insurance Laws, January 1980, U.S. Department of Labor, Employment and Training Administration.

Recent Perspectives on Benefit Adequacy

Throughout much of the history of the UI system there have been critics who held that benefit allowances are lower than they should be to fulfill the aims of the system. While such criticism continues, the issue of "inadequacy" of benefits appears to have shifted significantly to another issue: to what extent may UI provisions be so "liberal" as to discourage employment and create unemployment? (14)

Extraordinary as such an idea may seem at first consideration, the analysis and supporting data are impressive enough to merit careful consideration.

The argument revolves around two basic points. The real level of wage replacement available from UI benefits can be such that for many beneficiaries, there is little incentive to seek a job until benefits approach exhaustion. In addition, it is contended, both employers and workers are encouraged to make more use of seasonal, cyclical, and temporary employment than would be profitable in the absence of the UI system as now structured.

Much of the earlier criticism of the adequacy of UI benefits appears to have rested on use of the published statistics of average weekly benefit as a percentage of average weekly wage as a measure of the wage replacement value of unemployment benefits. (The distortions introduced by such comparisons were

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14. Recent research suggests that such potential effects are not limited to current conditions or to the U.S. program. In a study of Great Britain during the period from 1921 to 1938, Professors Daniel K. Benjamin and Lewis A. Kochin concluded that the unemployment program--paying benefits that were high relative to wages and available subject to few restrictions--raised the unemployment rate by 5 to 8 points on average. Arguing against the claims of John Maynard Keynes that the source of the problem was deficient aggregate demand and the remedy deficit spending, the authors concluded: "The army of the unemployed standing watch in Britain at the publication of the General Theory was largely a volunteer army....The unemployed of the late twenties and late thirties were pulled into unemployment, not pushed out of employment." "Searching for an Explanation of Unemployment in Interwar Britain," Journal of Political Economy, Vol. 87, No. 3 (June 1979), p. 474.

discussed in Section II.) In recent years the average benefits have been equal to about 37 percent of average wages per week. However, an individual claimant's benefits depend upon his previous earnings and employment experience and may be significantly higher than the average, which reflects the benefit structure over a broad range of jobless workers at any given time. As noted earlier, the maximum potential benefits are significantly higher than the averages in effect at a given time.

Another flaw in the interpretation of the average benefit/average wage ratio as representative of the replacement value of benefits lies in the fact that it relates gross wages--from which several levels of income and payroll taxes must be deducted to arrive at purchasing power--to the amount of benefits, which are available, tax-free income. Moreover, when the concept of "family income" is introduced, it appears that much of the unemployment benefits go to middle- and upper-income households. In 1970, for instance, families with incomes of $10,000 or more received half the benefits; those with incomes in excess of $20,000, 15 percent (the median family income in that year was $9,867). For such families, the value of tax-free benefits can be substantial (15).

Martin Feldstein, one of the most outspoken proponents of the disincentive effect of UI, and others have made studies which show that the replacement value of UI benefits is far greater than the average benefit/average wage ratio implies. Feldstein's research, based on a detailed analysis for every state in 1970, showed that for men with median earnings the average replacement rate was more than 60 percent. For women with median incomes and men below the median, the replacement rates were even higher, while in the states with the highest benefits the replacement rate exceeded 80 percent (16).

One of the most recent of such studies, conducted by the General Accounting Office, found that unemployment compensation by itself, or in combination with other income, replaced an average of 64 percent of a recipient's net income before unem-

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15. Martin Feldstein, "Unemployment Compensation: Adverse Incentives and Distributional Anomalies," National Tax Journal, Vol. 27, No. 2 (June 1974), pp. 231-244.

16. Martin Feldstein, "Unemployment Compensation: Adverse Incentives and Distributional Anomalies--Reply," National Tax Journal, Vol. 29, No. 1 (March 1976), p. 38.

ployment. For a sample of 3,000 persons interviewed, the survey found that about 25 percent replaced more than 75 percent of their net income while working, and about 7 percent replaced over 100 percent. The GAO reported that those who replaced over 75 percent of their net income collected UI benefits longer than others, were more likely to exhaust UI compensation, were nearly twice as likely to have quit their most recent jobs, and generally had held jobs similar to those listed as available by the Employment Service and local newspapers. These findings, and others, led the GAO to conclude that "some persons receiving compensation are not financially motivated to work" (17).

As Feldstein has also pointed out, the disincentive effects of the UI program may extend to employers, as well as employees (18). In the case of irregular work, be it seasonal, cyclical, or casual, the availability of unemployment benefits can have the effect of raising the net compensation of the employee relative to the employer's cost. As a consequence, some employers are encouraged to rely on temporary layoffs while essentially keeping their work force intact. This strange situation comes to pass in spite of experience rating, which is intended to increase the employer's tax costs in proportion to the unemployment experience of his workers, because many states have a maximum tax rate that does not recapture the full cost of unemployment benefits attributable to some employers. Thus, the employer already paying a maximum tax rate incurs no increase in taxes when he increases layoffs. A New York study found that 60 percent of benefits paid were attributable to firms subject to the maximum tax rate (19).

It is contended that the frequency and duration of temporary layoffs may be as important a factor in unemployment as prolonged job searches. For instance, nearly one-third of

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17. Unemployment Insurance--Inequities and Work Disincentives in the Current System, Report to the Congress by the Comptroller General of the United States, August 28, 1979, p. i ff. It should be noted that the published report includes statements submitted by the U.S. Department of Labor alleging that the GAO report contains major methodological weaknesses which lead to unwarranted policy recommendations.

18. Martin Feldstein, "The Unemployment Caused by Uemployment Insurance," in Federal Budget Policy, Employment, and Inflation, Tax Foundation, Inc., 1977.

19. Ibid., pp. 25-26.

unemployed men aged 20 years and over are not without a job, but simply have been laid off and are awaiting recall to their old job (20).

A large body of literature, pro and con, has developed around the disincentive thesis (21). Much of the argument has centered on the magnitude of the effect. Critics have also contended that illustrative examples were drawn from an atypical state, and the measurements of lost income ignored the value of fringe benefits such as health insurance. An interesting argument has been made by Raymond Munts and Irwin Garfinkel, who suggest that even if UI benefits do lengthen the duration of unemployment, the final result is advantageous because, given a longer job search, the worker is apt to find more suitable employment and therefore "a short-run disincentive feature of the UI system may...lead to increased job stability, higher labor productivity, and lower rates of unemployment over the long run" (22).

One implication of the disincentive thesis is that subjecting unemployment benefits to taxation would reduce the work disincentive effects of the UI program. Two contrasting considerations come to mind. One, the idea of including unemployment benefits in taxable income seems akin to kicking a man when he is down. The other, receipts for not working have taxpaying capacity per dollar at least as great as wages. Would such a levy in fact be an oppressive tax on the poor? (The personal exemption and other deductions would, of course, continue to apply.) If benefits do indeed go mostly to middle- and upper-income families, the effect may not be overwhelmingly severe.

Strong opposition has been expressed at the notion of taxing UI benefits. At least one critic contends that the rec-

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20. As of January 1980. Employment and Earnings, U.S. Department of Labor, Bureau of Labor Statistics, February 1980, p. 33.

21. For arguments and bibliography, see Brookings Papers on Economic Activity, 1975, Vol. 1, pp. 13-60; Steven P. Zell, "Unemployment Insurance, Part III: A Critique," Monthly Review (Federal Reserve Bank of Kansas City), July-August 1976, pp. 14-22; Raymond Munts and Irwin Garfinkel, The Work Disincentive Effects of Unemployment Insurance, W. E. Upjohn Institute for Employment Research, September 1974.

22. Munts and Garfinkel, op. cit., p. 2.

ommendation "ignores the way in which benefit levels are set." He asserts that rates are established by state legislatures "presumably in response to political pressure by interested parties who know which side their bread is buttered on" (23). It seems likely that the taxing of benefits would immediately lead to pressures for higher benefit-wage ratios.

While the issue continues to generate controversy, Congress in 1978 approved the President's proposals to tax a portion of unemployment benefits at certain income levels, effective with the 1979 tax year (24).

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23. Stanley A. Horowitz, "Unemployment Compensation: Adverse Incentives and Distributional Anomalies--A Comment," National Tax Journal, Vol. 29, No. 1 (March 1976), p. 35.

24. The amount of UI benefits to be included in adjusted gross income generally is one-half of the excess of income (including unemployment and excludable disability income) over $20,000 for single taxpayers, over $25,000 for married taxpayers filing jointly, and over zero for married taxpayers filing separately. For example, a married taxpayer filing a joint return with income of $30,000 (including $5,000 of unemployment benefits) would include $2,500 of UI benefits in adjusted gross income.

IV.

ISSUES IN EXPERIENCE RATING

The desirability of adjusting tax rates to reflect each individual employer's actual experience with unemployment--experience rating--has provoked debate since the inception of the program.

The basic objectives of experience rating fall into four major categories:

1) to provide sound financing of the system;
2) to encourage employers, through a tax incentive, to stabilize employment or prevent unemployment;
3) to assure fair distribution of benefit costs by a more accurate allocation of the social costs of unemployment;
4) to encourage active employer interest and participation in the development and administration of state programs.

Variations in Experience Rating Plans (1)

Originally, reflecting acrimonious debate over the desirability of experience rating, 11 states provided for no experience rating at all. Today, all state plans (except in Puerto Rico and the Virgin Islands) include the concept (2).

Experience rating formulas can be classified into four major types:

1) reserve ratio, used by 32 states and the District of Columbia;
2) benefit ratio, used by 11 states;
3) benefit/wage ratio, used by 5 states;
4) payroll variations, used by 3 states.

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1. Factual material in this section, except as noted, is based on Comparison of State Unemployment Insurance Laws, January 1980, U.S. Department of Labor, Employment and Training Division.

2. The system may at times be suspended and a uniform tax rate be applied to all employers (this was the case in the state of Washington and the District of Columbia in 1978).

The reserve-ratio approach, originally used by only seven states, has come to be the most popular. This is essentially a form of cost accounting, in which a separate account is kept for each employer. All taxes paid by him are credited to the account, and all benefits paid to the firm's former employees are deducted. The percentage relationship of the account balance to the employer's payroll becomes the basis for determining the tax rate.

Generally the difference between taxes and benefits is cumulative from the first use of the reserve ratio, and the payroll is the average of the prior three years. If the employer has accumulated and maintained a given reserve (the amount varying by state), his tax rate is determined from a schedule of reserve ratios, with low rates assigned to higher ratios and vice-versa. Within this broad framework may be found numerous variations.

The benefit-ratio formula is similar to the reserve ratio, except that it does not take into account UI taxes, and is geared to short-term experience. In most states, taxes are adjusted on the basis of the ratio of benefits to payrolls in the three most recent years.

The benefit-wage ratio formula takes an entirely different approach. Tax rates are determined by the ratio of "benefit wages" to total taxable wages. "Benefit wages" are the wages earned in a base year by employees who have been separated. The relevant measure is the amount of wages earned rather than the length of unemployment, since duration of benefits does not enter directly into the formula. Normally, the employer is not charged with benefit wages until the individual has had a specified length of unemployment (e.g., when benefits paid equal three times the weekly benefit amount).

The payroll variation plan basically measures the stability of payrolls and does not take benefits into account at all. This approach presumes that an employer's experience with unemployment will be reflected in declines in his total payroll from quarter to quarter or from year to year. Generally firms whose payrolls do not decrease, or decrease by only a small percentage, qualify for the lowest rates.

In most states, the level of a state's reserve fund balance determines whether "most favorable" or "least favorable" tax rates schedules apply (3). If a state's reserve declines

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3. In more than half the states, however, there is no requirement of a minimum fund balance before any reduced rate can apply.

toward a low position, tax rates may be increased for most or all employers. If the balance rises to a high position, tax rates will generally be reduced. For example, minimum employer rates (for employers with little or no unemployment) in the most favorable schedules (e.g., with state reserves at or above a specified level) range from zero to 1.2 percent of payroll. Twelve states offer a zero rate. The most common minimum rate is between 0.1 percent and 0.4 percent, inclusive, and only eight states have a minimum rate of 0.5 percent or more. In contrast, maximum rates (when state reserves are low) range from 2.7 percent to a possible 8.5 percent in one state (the latter only if the fund were exhausted). The maximum tax rate for employers in nearly half the states exceeds 4.0 percent of payroll.

Benefit Charging

The effectiveness of experience rating to some extent depends on the method used to identify the employer to be charged with a specific worker's benefits. Generally, three methods apply: 1) charging the most recent employer, 2) charging base-period employers in inverse chronological order, and 3) charging in proportion to base-period wages.

Under the first method, the most recent employer is assigned all the charges, on the presumption that he was primarily responsible for the unemployment. The most recent employer is not liable, however, if the beneficiary had only casual or short-time employment with him. Relatively few states use this method.

More common is the practice of charging base-period employers in inverse chronological order. This method has the advantage of increasing the number of interested employers, thereby raising the potential for reemployment. Generally a limit will be placed on the amount any one employer must pay, and when that amount is exhausted, the next previous employer is charged.

The most widespread method levies charges in proportion to base-period employment. This approach presumes that unemployment is more the result of general economic conditions than the actions of a specific employer, and that wage payments provide the best index of responsibility. In one variant of this method, all of the charges are assigned to the principal employer.

Practically all states which base rates on benefits or benefit derivatives provide that certain kinds of benefits should not be charged any employer. Noncharged benefits include those associated with short-term employment, some seasonal employment, individuals taking approved training courses, benefits paid after a period of disqualification (as for voluntary quits, misconduct, and refusal of suitable work), etc. (4). A few states cancel a portion of charges if the employer rehires the beneficiary within a specified period. Charges generally are not made to an employer who employed a claimant part-time in the base period and continues to provide approximately equal part-time work.

Provisions vary widely from state to state, but clearly the effectiveness of experience rating in influencing management behavior will be at least to some degree dependent on the extent and kind of noncharged benefits.

Experience Rating and Small and New Employers

Attempts to evaluate experience rating have often included the question of its possible effect on new firms and small firms. Such firms operate under a variety of natural disadvantages, and if they find themselves paying a higher rate of unemployment insurance tax than that levied on their competitors, this additional burden could be one of the marginal factors leading to their demise.

Since an employer must pay the "standard" state rate, generally 2.7 percent, until his firm has established a performance record, the labor costs of new firms generally will be higher than costs of their established competitors. The disadvantage will last for periods ranging from one to three years, depending on the state in which the firm is located.

Unfortunately, some firms will not survive long enough to enjoy the lower rates. Simply because new firms experience a higher rate of failure, in fact, it has been contended that the high initial rate is in line with the higher costs they impose on the system and therefore is appropriate (5).

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4. In addition, 18 states exclude Federal-state extended benefits from charges to individual employers.

5. Another justification for initial standard rates is that all employers should be required to pay amounts in excess of their benefit charges to help establish the total statewide reserve.

Since 1970, Federal law has permitted states to assign a reduced rate (not lower than 1 percent) to any firm, including new firms, on a "reasonable basis," which need not depend on an unemployment history. About 40 percent of the states have taken advantage of this provision to ameliorate the new-firm hardship.

Similar questions arise with regard to seasonal firms. In general, seasonal firms pay a higher rate under experience rating than they would under a uniform-rate system. It has been contended that these higher rates place restraints on seasonal firms which, in the long run, reduce the total employment provided by this sector of the economy (6). Alternatively, sometimes even when seasonal firms pay higher rates, other firms will be in the position of subsidizing the seasonal industries. This result occurs when the maximum rate is not sufficient to pay fully the costs imposed by firms whose employment fluctuates widely, or who typically have long periods of layoff. The relative importance of seasonal industries in a state's total economy usually influences the decision on how to handle this problem.

Some writers claim experience rating works a hardship on small firms, burdening them with the heaviest tax rates. There are two major difficulties in assessing this criticism. Overall data on tax rates by firm size are not very satisfactory, being either outdated or available only for individual states. In addition, new firms, with their high failure rates, are most apt to be small firms, and so it may be that what has been interpreted as an effect touching small businesses is in fact largely the experience of newcomers. Further research on this question is needed before definitive conclusions can be drawn.

Effectiveness of Experience Rating

Advocates of experience rating contend that its objectives are of vital importance and are served well by such a method of financing. Some critics charge that experience rating has not fulfilled some or all of its objectives, that it has had other adverse effects, or that the stated goals could be achieved just as well without variation of individual employer tax rates.

Organized labor, in particular, has criticized experience rating on grounds that it leads employers to oppose

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6. This contention overlooks the possibility that the higher tax costs can be passed on through higher prices or otherwise absorbed by the employer.

increases in benefits and to seek more stringent disqualification provisions in state laws.

On the other hand, many employers tend to take the view expressed by a former chief economist of the Chamber of Commerce of the United States:

> With one group in society (employees) receiving all the benefits, and another group (employers)... paying the tax contributions, experience rating is highly essential to encourage a proper balance in establishing benefit levels and benefit formulas, to stimulate an employer interest in the administration of the program, and in general to act in a policing capacity to prevent the program from degenerating into a relief program (7).

Moreover, debates on the merits of experience rating have often been obscured by spurious issues. Among these, according to Joseph M. Becker, are the issues of a single Federal program versus individual state programs, interstate competition for the location of industry, and the claim that in the absence of experience rating more funds would be available for unemployment benefits. None of these issues is currently relevant to the effectiveness or desirability of experience rating in Father Becker's view (8).

Suggested Improvements in Experience Rating

Proposals for changes in experience rating provisions--aside from those that would discard the approach altogether--focus on increasing its effectiveness and modifying the timing of rate adjustments with a view to business cycle problems.

Among the changes which would increase the degree of experience rating are the following, according to Father Becker:

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7. Emerson P. Schmidt, quoted in William Haber and Merrill G. Murray, Unemployment Insurance in the American Economy, Irwin, Inc., Homewood, Illinois, 1966, p. 344.

8. For an elaboration of his views, see Joseph M. Becker, Experience Rating in Unemployment Insurance: Virtue or Vice, W. E. Upjohn Institute for Employment Research, Kalamazoo, 1972, p. 1.

1) Adopt the reserve-ratio system if another system is currently in operation. 2) Raise the maximum tax rate. 3) Lower the minimum rate to zero.... 4) Lessen or eliminate noncharged benefits. 5) Increase the sensitivity of the tax schedule by providing that a smaller change in the employer's reserve will result in a change in his tax rate (9).

In addition, he lists several administrative changes that would facilitate operation of the system.

Other suggestions for improving the merit rating system have been put forth by businessmen who are familiar with the workings of the system. Such changes--some including those suggested by Father Becker--are implicit in the following excerpts from a speech by Edward H. Kay, Tax Attorney, Sears, Roebuck and Company, in which he outlined "key elements to a good unemployment compensation experience rating tax system":

1. Legislative feasibility...
2. A high percentage of the employers should pay for the benefits received by their former employees. This requires a realistic maximum tax rate and wage base...
3. Most employers should be required to establish a reserve fund. This fund should be built up during good times so that monies are available during a downturn in the economy to pay benefits without immediately slapping employers with large increases in their tax rates.
4. If the fund begins to drop too fast, tax rates must increase even though this may require a heavy tax burden while the economy is still down.
5. There should be a realistic spread in tax rates between the minimum and maximum amounts to encourage employers to reduce turnover and to become involved in the unemployment compensation program. In other words, certain social objectives of the program can best be obtained by allowing employers to develop sufficient savings to make it worth their while.

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9. Becker, op. cit., p. 85. It should be noted that not all advocates of merit rating agree that the reserve-ratio system is preferable to others as regards experience rating.