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IZA Policy Paper No. 129

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MAY 2017

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ABSTRACT

The US Unemployment Insurance, a Federal-State Partnership: Relevance for Reflections at the European Level*

This paper describes the US Unemployment Insurance (UI) in particular the federal-state partnership in governance, funding and policy making. It discusses "national interest"as defined by the Federal authorities in relation to UI: income support, economic and employment stabilization and reemployment. The corresponding policy objectives might not be (fully) shared by the states and tensions and policy conflicts emerge. The paper assesses the capacity of the UI system to deliver on those nationwide defined objectives in particular during and after the Great Recession. The UI system had considerable anticyclical impact reinforced by federal intervention. The paper discusses the federal tools to influence state schemes and how they encourage the acceptance of national standards through conditional funding. During the great recession this proved to be temporarily successful for access to and duration of benefits. The often announced shift to more pro-active programs was seemingly more difficult to achieve. Recent policy proposals including those by the outgoing Obama Administration and by the Republican Speaker of the House, Paul Ryan, are reviewed. The paper concludes with reflections on the relevance of the US experience for European level unemployment benefit or welfare schemes. Given the strong position of the EU member states the US Federal-State partnership could be a more pertinent reference than the highly centralised UI systems in other federal states. The relation between federation wide standards and incentives for the reform of state systems, for sustainable financing and shifts to more pro-active policies might be of interest. Finally strengthening the anti-cyclical impact through federal intervention including funding mirrors debates on the role of automatic stabilisation mechanisms in the Euro Area.

JEL Classification: J65, J68, H75

Keywords: unemployment insurance, stabilization, adequacy, funding, federal-state partnership, USA, European Union

* Most of the work on this paper has been carried out during my 2015/2016 European Union Studies Fellowship at the Macmillan Center at Yale University which the European Commission generously supported. I am grateful for the encouragement by colleagues at the Center in particular Prof David R. Cameron and colleagues in the US Labor Department in particular Gerri Fiala. I am grateful for extensive and detailed comments on previous drafts by Claire McKenna, Chris O´Leary and Suszanne Schwartz-Simonetta who helped me to understand the US system. I would like to thank Bob Bednarzik, Olivier Bontout, Werner Eichhorst, Robert Strauss and Frank Vandenbrouke for comments. Lynda Belcanto acted as thoughtful editor and Gabe Reynoso-Palley helped greatly with the statistical analysis and presentation. All mistakes are of course mine.

Introduction: The history of the US arrangement and relevance for reflection at the European level

The US Unemployment Insurance (UI) program is, as Stephen Woodbury writes in his analysis, "unique among American social programs: each of the 50 states…finances and administers its own [unemployment insurance] program, but does so under federal guidelines and oversight" (2014, p. 2). Each of the welfare systems in the US displays different combinations of federal and state responsibilities; the federal government and Congress maintain significant control over some, like the Supplemental Nutrition Assistance Program (SNAP) food stamps program, and states have wider autonomy over others, like the Temporary Assistance for Needy Families (TANF) cash social assistance program, for which states provide a considerable share of funding. UI has a unique position within this spectrum of programs in the social safety net.

In designing New Deal programs established by the Social Security Act of 1935, President Roosevelt enacted a fully federal system for retirement, while opting instead for a state-federal partnership for UI. For the UI program, the federal government's role includes funding administration, setting standardized guidelines for UI implementation, and imposing a tax on employers. This tax is designed in such a way that states have very strong incentives to set up UI systems that follow federal guidelines on program, finance and administration, but states have significant latitude to determine benefit standards. This structure reflects the political circumstances under which New Deal programs were implemented, notably the Southern Democrats' position on race and concerns whether the Supreme Court would accept federal legislation on UI. Moreover, one or two states had made advances towards establishing state benefit systems before 1935, challenging a centralized federal UI program. The project also faced significant resistance from parts of the business world and some labor unions (Swenson, 2002, ch. 9-10; Beramendi, 2012, ch. 5).

UI usually organized at central government level

Such a federal-state partnership for UI is rare in OECD countries, including in the countries that are federations of political entities (Provinces, Länder, Kantone) like Canada, Germany, and Switzerland. UI is typically the responsibility of the highest level of government for three reasons. First, such centralization ensures that UI is applied across a national labor market with fairly uniform rules and practices. One aspect is that decentralized UI systems might hinder mobility of labor. If benefits are not portable and UI conditions differ greatly between states this might impact on labor mobility. This can be addressed through appropriate regulation between decentralized systems. Secondly, the interaction between capital and labour mobility reinforces the importance of central implementation. As capital is typically more mobile than labor, if UI were organized at a regional level there would be a risk of downwards competition on employer UI tax rates, potentially leading to a race to the bottom regarding standards or structural underfunding. Third, and perhaps most important, organization at a lower level of government would limit UI's effectiveness as an automatic stabilizer. The benefits of stabilization are shared widely across regional entities; hence, states that do little to implement UI will not contribute to the overall stabilization effort, but will still benefit from the efforts of other states.

Moreover, states are limited in their capacity to carry out stabilization. If funding were based exclusively at the state level, and these lower level entities were to run out of funds during a recession period, the stabilization function of UI would be significantly undermined when and where it was most needed. Typically financial support from the center is the solution to this risk. However, this then poses different risks, including free rider and moral hazard behavior among the lower level political entities (states, Länder, provinces, regions in different countries) involved. Confronted with pressures to keep regional tax rates low, these entities might have an incentive to underfund UI with the expectation that the center will come to the rescue in difficult times. While these risks do not rule out the possibility of a successful federal-state partnership, they do suggest the potential difficulties of such a system. Some are easier to address than others. For example, portability of acquired UI rights can be established through a specifically devoted regulation through a system of mutual recognition and cooperation between independent national systems without any harmonization of rules as such as it is in done within the EU[1].

By contrast, European countries organized as federations - admittedly far smaller in area and population than the US - have preferred organization at federal level. So one could argue that beyond specific features of the benefit system, the US two-tier partnership approach is not particularly relevant for the EU member countries, including the federations. However, the opposite is true for the work on any scheme for UI at the European level. While good economic and political reasons exist for including a European unemployment benefit and employment promotion scheme in developing options for completing the European Economic and Monetary Union (EMU), few would propose a centralized system, and for obvious reason.[2] All EU member countries have established unemployment insurance systems, and the idea of supranational centralization is not politically attractive for most. In his book, *The Political Geography of Inequality,* Beramendi discusses why centralized solutions in a loose and diverse Union will face massive resistance (2012). If European policy makers who wish to make progress on setting up an unemployment support scheme at Euro Area or EU level, lessons from the US scheme could be very valuable.

Nationwide interest as justification for federal government involvement in USA

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[1] Information on the EU Social Security Coordination System can be found under http://ec.europa.eu/social/main.jsp?langId=en&catId=849 , and on unemployment insurance under http://ec.europa.eu/social/main.jsp?catId=857&langId=en&intPageId=978.

[2] Already in 1975 the predecessor of today's European Commission raised the advantages of a „community system of unemployment benefits“ and the issue returned regularly when economic integration made a step forward. More recently in 2012 Reports by the European Commission and by the President of the European Council Van Rompuy discussed European Unemployment Benefit Schemes as one option for establishing a system of counter-cyclical automatic stabilization in the European monetary union. 2015 an important political EU level report prepared by Commission President Juncker recalled the need for automatic stabilization (without mentioning specific schemes) and in 2016 a major research project commissioned by the European Commission at the request of the European Parliament reviewed different options for Euro Area wide unemployment benefit schemes. For overview papers see: The history and debate in Europe on a European Unemployment Benefits Scheme,Robert Strauss, June 2016; European unemployment insurance, Sebastian Dullien , The New Palgrave Dictionary of Economics, Online Edition, 2015, Edited by Steven N. Durlauf and Lawrence E. Blume;   László Andor, Transition to Transfers: Options for EMU level Unemployment Insurance, Social Europe, August 29, 2016.

The designers of the US scheme considered many of the risks associated with a federal-state partnership when creating the system, rendering the original scheme and its evolution particularly relevant for a debate in other multilateral contexts. “Although UI is rife with controversy over specific provisions, the principles and goals of the system are uncontested.” (Woodbury, 2014, p.3). Nevertheless, the assessment of how much federal involvement is necessary remains a sometimes controversial issue. Established by federal law in the early 1990s with the purpose of reviewing the UI system and recommending necessary adjustments, the *Advisory Council on Unemployment Compensation* (ACUC, The Council) reinforced the rationale for federal involvement in a program that is primarily the responsibility of the states. Members of the Council included high-level representatives from labor unions, business, academia, and administration, notably the governor of Wisconsin. The Council’s report argues that there are “two primary areas of essential national interest that may diverge from state interest: provision of adequate insurance to workers throughout the country and macro-economic stabilization.” It adds, “the Council finds evidence that escalating competition among some states to attract and retain business may result in UI taxes that are lower than they would be without this competition...result[ing] in tightened eligibility standards, which adversely and disproportionally affect low-wage workers” and in “reductions in benefit levels or in diminished access to services” (1996, pp. 27-28). On this basis, the Council confirmed the need for a federal-state partnership and listed specific areas in which the federal role is particularly important, including forward funding of state schemes, ensuring adequate benefit levels and coverage of the unemployed, and extending benefit durations to fulfill the stabilization function during periods of high unemployment (ACUC 1996, pp. 29-30).

The report defines “national interests” counter to “state interests,” “in which both an essential national interest exists and state interests may diverge from those national interests". These national interests include addressing “escalating competition,” regarding the functioning of the US market economy, and “adequate provision of benefits and sustainable funding,” regarding fiscal stabilization within this economy (ACUC 1996, p. 27). In EU terms, the first relates to establishing a socially fair level playing field in the single market, and the second to fiscal union and EMU. I will return to both points when discussing President Obama’s most recent proposal.

The next four sections of this paper describe the US UI system and some outcomes (Table 1 provides an overview of the main unemployment trends in the US and the most populous states during this period). The first section describes the fundamental organizational principles as well as the federal objectives. The second section provides an overview of the key parameters for UI in terms of eligibility, benefit duration, benefit calculation, and funding. The third section addresses the programs implemented during recessionary periods to extend the duration of benefits. The fourth section discusses the practices concerning UI administration, job-search, matching, and activation of the unemployed. Drawing on the primary objectives of UI, the fifth section assesses outcomes of the program during the Great Recession and the following years of recovery. The sixth section evaluates the financial sustainability of the program and discusses the political economy of state-federal relations. The seventh section reports recent proposals made by the Obama administration. Finally, the paper concludes and presents reflections for the EU discussion.

Organizational principles and policy objectives of the system

Under the organizational principles of the federal-state partnership, states administer the UI program. They determine benefit eligibility and generosity as well as set tax rates. The federal role in the federal-state relationship includes setting overall program objectives, establishing and monitoring performance, ensuring the compliance of state laws and operations with federal law, and funding the administration of state programs.

The federal government has a truly unique position on funding. Employers are potentially subject to a Federal Unemployment Tax (FUTA) of 6% on employee earnings up to the first $ 7000. However, if states establish and support a system of unemployment insurance that meets federal standards, employers who pay the state unemployment tax on time receive a credit of up to 5.4% against the federal tax—rendering the typical net FUTA tax rate a mere 0.6%. If a state system runs into a deficit, the federal level can fund UI activities through loans, or states can also finance in the bond market. If federal loans are not paid back within two years, the tax credit for employers is reduced until the loan is paid back. Moreover, the federal level funds program administration, and 50% of the cost for benefits under the permanent extended benefits (EB) program and 100% for temporary emergency benefits that prolong benefit duration in recessionary periods.[3]

The overall program goals set by the federal government could be summarized as the following:[4]

[3] The funding of the program administration is not without controversy. Many argue that federal funding is insufficient to run a sound program and needs to be supplemented by state funds. This paper does not follow up on this issue although it might be interesting when thinking about similar funding rules between central and decentralized entities.

[4] See *Daniel N. Price, Research Office of the Social Security Administration, "Unemployment Insurance, Then and Now, 1935-85" in; Social Security Bulletin, October 1985/Vol. 48, No. 10.*

The article in the social security bulletin reports on the history of Unemployment Insurance (p. 24) and on a document released 1955 by the Labor Secretary that sets out the basic principles:

"What are the objectives of this program created by the Social Security Act?

On the program's twentieth anniversary in 1955, the Secretary of Labor published this list:

(1) Unemployment insurance is intended to offer workers income maintenance during periods of unemployment due to lack of work, providing partial wage replacement as a matter of right; (2) it is to help maintain purchasing power and to stabilize the economy; and (3) it is to help prevent dispersal of the employer's trained labor force, the sacrifice of skills, and the breakdown of labor standards during temporary unemployment."

Translating these general objectives into more specific goals, the Secretary recommended as Federal policy that unemployment insurance should cover as far as feasible all workers subject to the risk of involuntary unemployment; that workers should qualify for benefits if they have had recent and substantial attachment to the labor force; that weekly benefits should be sufficient to cover non-deferrable expenses (a benefit of at least 50% of gross wages); that the duration should be sufficient to protect workers through periods of temporary unemployment (at least 26 weeks for all eligible workers); that the disqualification provisions should assure that claimants be involuntarily unemployed through no fault of theirs and that they be able and available for work, but the provisions should not be punitive; that the states should facilitate the payment of benefits to workers who move from one state to another; that financing should be sufficient to insure the payment of benefits in economic downturns, increasing

1. To partially and temporarily compensate earnings of workers who lost employment;
2. To stabilize the economy during recessions;
3. To stabilize employment at the level of companies and to promote reemployment.

A statement by the Secretary of Labor in 1955 suggests that the stabilization function also plays a role in boom periods by building up reserves for bad times (forward funding). Experience rating (companies that lay-off more workers pay higher taxes) establishes employment stabilization/unemployment prevention as a fundamental goal. The Obama administration emphasized the importance of unemployment prevention.[5]

In 1995, the tripartite Advisory Council on Unemployment Compensation drafted a statement of purpose that makes these three functions very visible, and prioritized the income protection function: "The most important objective…is the provision of temporary, partial wage replacement as a matter of *right* [emphasis added] to involuntary unemployed individuals who have demonstrated a prior attachment to the labor force. This support should help to meet the...expenses of these workers as they search for employment that takes advantage of their skills and experience." It asks for "*close* [emphasis added] cooperation among the Unemployment Insurance System and employment, training, and education services." And it highlights that the stabilization function also applies to periods of better economic activity, stating an objective to "accumulate adequate funds during periods of economic health…to promote economic stability by maintaining consumer purchasing power during economic downturns" (1995, p. 10). Note that while the Report by the Council and the declaration by the Secretary (see footnote 3) recommend a benefit duration of at least 26 weeks and a replacement rate of at least 50% of gross earnings, these standards are nowhere translated into federal legislation or conformity regulations that are the conditions to qualify for the FUTA 90% rate reduction.

While these goals leave wide room for interpretation, they are useful for reviewing the outcomes of the UI system and for identifying some broader points of relevance for social programs in the Euro Area and at the EU level. This review is not intended to follow up on all the goals detailed in the 1955 statement, but to concentrate on four key outcomes: 1) the proportion of unemployed workers who actually receive benefits, 2) the success of the stabilization of income objective, 3) the effectiveness of reemployment services and incentives, and 4) the sustainability of the system as a federal-state partnership.

2. State autonomy in fixing benefit eligibility, benefit levels, and financing rules

States define monetary and non-monetary eligibility

While states use similar parameters for determining monetary eligibility, the actual requirements vary greatly by state. Eligibility requirements typically consider workers' earnings over the first four of the previous five completed calendar quarters of work. Many states also consider earnings over four quarters including the most recent quarter, the so called alternative base

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reserves in good years; and that opportunities for the reemployment of claimants should be increased through the coordination of efforts with the Employment Service.

[5] As illustrated by the promotion of a short time work program, early intervention in anticipation of factory closings and linking UI and training more closely is clearly a recent priority for federal policies.

period (ABP). States define two thresholds for the "base period," the period in which earnings and work are assessed: one for the quarter in which wages were highest ("high quarter") and one for the total of all four quarters as a percentage of the high quarter. This dual threshold, the high earnings rate condition and the dispersion condition, aim to exclude claims based only on occasional attachment to the labor market or on employment purposefully constructed to receive benefits. These requirements can also exclude or disadvantage workers who have low earnings or work part-time and workers who had seasonal or unstable employment in earlier parts of the base period. The Council noted that excluding recent work experience "may have the effect of disqualifying some workers who have worked continuously, but who need the most recently completed quarter…to qualify for Unemployment Benefits" (1996, p. 18). The Council argued that modern technology allows for consideration of these periods and proposes that states should include most recent quarters in determining eligibility for benefits. The Council noted that fixed thresholds might pose eligibility restrictions for part-time workers with low hourly earnings and further proposed that states should address this bias (1996, p. 19). The alternative base period and eligibility while seeking only part-time work were elements of the recent UI modernization incentive expansions. 41 states adopted ABP and 28 states part-time work eligibility rules. Two states have since repealed the part-time rule and one also repealed the alternative base (see below).

States also set non-monetary eligibility requirements related to job search and availability. States have a large degree of flexibility to define suitability of work and the consequences of refusal. In some states, refusal of suitable employment can postpone benefits from between 2 and 21 weeks, while other states require new earnings to re-qualify. According to the National Employment Law Project (NELP), 21 states require workers to search for full-time work, regardless of their work histories, and do not consider workers only searching for part-time work to be eligible. States also differ in their treatment of workers who have left employment voluntarily or have been discharged for misconduct. Most states restrict good cause to causes connected to the claimant's job or attributable to his or her employer (e.g. harassment). States differ in their treatment of reasons for leaving for personal reasons; some accept illness or disability, moving with a spouse, or caring for an ill or disabled family member. 21 states broadened the "compelling reasons for quit" under UI modernization - see below. States also differ on the impact on eligibility of these reasons, ranging from complete disqualification or a delay in benefits of between 4 and 17 weeks.

The standard benefit duration is 26 weeks. Nine states provide a uniform potential duration of 26 weeks to all claimants who meet minimum monetary requirements. The remaining states vary the duration based on workers' previous work experience. Two states provide longer maximum durations. Beginning in 2011, eight states reduced the maximum duration to less than 26 weeks (Isaacs, 2013). This reduction conflicts with the statement by the Secretary of Labor as well as with the Council recommendation favoring a six-month period of replacement of income (Advisory Council, 1995, p. 22). However, as neither of these recommendations has been incorporated into federal standards, states are free to reduce the duration.

The proportion of unemployed receiving unemployment benefits differs widely

The proportion of unemployed who receive unemployment benefits (recipiency rate) varies greatly between states, particularly during periods when no extended or emergency benefits are provided (see Table 2 for the 14 states with the highest recipiency rates). The recipiency rate has declined in almost all states over time so much that national recipiency rates reached all-time lows in 2014 and 2015. For example, the recipiency rate in Florida was 29.6% in 2006, increased to over 50% in the recession years due to the federal extensions of durations, and declined to 11% in 2015. Georgia and North Carolina demonstrate a similar trend. In New York and California—two of the biggest states in terms of covered workers—levels are higher and declines less marked; nevertheless, recipiency rates in both states were over 40% before the recession and dropped below 35% following the recession (Table 2). Massachusetts seems to be the only state in which high levels of recipiency persists, and Texas is the only state to exhibit a reversal of trend, with the recipiency rate in 2014 and 2015 around 10 percentage points higher than in the mid-2000s.

There are different factors at work. First, recipiency increases typically at the start of a recession as those becoming unemployed have longer and better earnings histories than applicants when the economy is strong or expanding. This applies to all states and cannot alone explain the big variations between states at any moment in time and the differences between states in variation over time. The changes in monetary eligibility and duration at state level have contributed to the decline in recipiency. In addition, changes in the employment structure have also played a role. For example, an increasing share of workers have part-time work or temporary contracts and are therefore disadvantaged in terms of acquiring eligibility.

Two more elements are frequently mentioned.[6] In some states, there are reports about difficulties for older, less digitally literate workers with online application tools and about a lack of support for potential claimants with limited English proficiency. The Department of Labor addresses these issues in its guidance and draws attention to discriminatory practices that conflict with federal rules around non-discrimination, methods of administration, and access to benefits (Department of Labor 2015). The guidelines list a number of potentially disadvantaged groups—including older workers with little knowledge of modern technologies, individuals with disabilities, and workers with limited knowledge of English—and note that meeting these requirements is a condition for receiving a UI federal administrative grant. The guidelines further provide recommendations for ensuring full access for all individuals.

The income replacement rate, the benefit an individual receives as a percentage of pre-layoff earnings, is subject to diverse rules. Differences in statutory replacement rates between states are less marked than those between recipiency rates but remain substantial. The norm across states is a 40-60% replacement rate with a maximum ceiling. Effective replacement rates are likely to be lower for many workers notably those with somewhat higher earnings. Thirteen states provide an

[6] For reasons why workers don't apply for UI, read the National Employment Law Project (NELP) report at http://www.nelp.org/content/uploads/1A-Increasing-Application-Rates-to-Increase-UI-Recipiency.pdf. For a discussion of access barriers in Florida, see http://www.nelp.org/publication/aint-no-sunshine-florida-unemployment-insurance/

additional dependents allowance beyond the basic benefit amount if the claimant has qualifying dependents (Department of Labor, 2016, p. 20).

The financing rules: Tax rate, taxable base, and experience rating

The contribution rate and the taxable base determine employers' contributions. These are fixed by the states and vary considerably. The federal annual taxable base is $7,000 but states can fix higher maximum tax bases (see below). Employers pay the FUTA tax of 0.6% on up to $7,000 per worker. This money finances UI administration, loans to states, employment services, extended benefits. States taxes must use a base of at least $7,000 and a maximum rate of 5.4% and they can charge employers lower rates based on experience. As $ 7000 annually is well below even typically low earnings the actual tax rates are far smaller.

States that deplete their state funds can borrow from the federal fund. Interest rates on these loans are moderate. If states do not pay back these loans within two years, the employers' tax is increased by 0.03% of the wage base per employee. The assessment section will discuss the implications of this structure on the potential for underfunding.

An individual employer's tax is "experience rated" : It depends on how many workers have been laid off and received unemployment benefits. Complex rules and exemptions might make this system less effective than intended (Woodbury, 2014, p.16). As Vroman and Woodbury (2014) discuss in their comprehensive paper, "Financing Unemployment Insurance" report that experience rating is incomplete and encourages employers to redefine lay-offs as dismissals for cause in order to save them from increases in tax rates. Moreover it is an open question whether complete experience rating is actually justified. It is of course perfectly appropriate to discourage employers from laying-off workers whenever there is a short-term decline in demand and reemploying them only a few months later. This is particularly true for companies that systematically use temporary lay-offs. And this might lead to comparatively high tax rates for such employers. But there is a second type of employers who could face high tax rates namely those enterprises that are fully exposed to international or even national competition. These employers might face more up and downs in demand and might be forced to lay-off workers more frequently than those that are in well-protected sectors sometimes supported by public funds. Why should the former pay more of the costs of unemployment than those in the protected sectors? This issue might be more relevant in Europe, as many smaller countries are more strongly dependent on foreign trade than the US, which has a far more closed economy. It is worth noting that in many US states and EU countries different rules apply to unemployment due to seasonal activities.

The federal maximum taxable base has not been raised since 1983 and amounts to $7,000 annually, which is surprisingly low compared to actual earnings and to the social security base of $ 118,500. States are free to set higher values. 16 states have a maximum tax base below $10,000 and only 6 have one over $35,000 (Department of Labor, 2016), the rest in between. As of 2015, only 19 states have implemented an automatic annual increase in the tax base in proportion to annual wage growth. Moreover, tax rates themselves differ widely between states. As a rule, the comparatively low base leads to substantial differences between the tax rate on the base earnings and the tax rate on total earnings (see Table 3). For example, California's average tax rate on taxable wages was 5% in 2015, while the average tax on total wages amounted to

0.8%. In Washington State, where the tax base is six times the federal tax base, the average tax rate on taxable wages is 1.6% and on total wages 0.9%—two totally different situations. The low tax base has other implications related to further objectives. While low-income workers are less likely to receive unemployment benefits, employers pay a higher tax rate on their wages.

UI, employment services, and job search

To be available for and actively searching for employment is a legal requirement for each individual unemployment benefit claimant, and each state system has a specific strategy to promote this objective. Federally funded employment services are available to UI claimants in all states. However, the federal support is quite moderate, and some states supplement the support with their own funding. The OECD does not classify the US UI system into the group of the particularly strict OECD countries in terms of promoting job search (Langenbucher, 2015). As the OECD study recognizes, rules differ widely between states and so do implementation and practice. States exempt a considerable proportion of beneficiaries from contact with the employment service, specifically workers on temporary lay-offs with a fixed date of return to work and union members who are placed on jobs by hiring halls.

State reemployment activities differ widely in organization and structure. In many states investment in these services is modest. There is less pressure to run major reemployment programs when UI recipiency rates are low, even if unemployment is not. Recent moves to online UI applications and the replacement of direct contact with online communication might have reduced access to necessary services for unemployed claimants with lower digital literacy. It also seems to be the case that contact with claimants is limited to telephone calls, including checks of their search activities. Christopher O'Leary reported that in the early 2000s many states only used telephone calls to check continued claims (2006).

There are important initiatives to reinforce UI claimants' connections with reemployment services, with the adoption of the Workforce Innovation and Opportunity Act as the latest example. The 2016 federal budget appropriation for the Department of Labor provided increased funding for states to provide in-person reemployment services for UI claimants, and required that states target services to those profiled as most likely to exhaust benefits or become long-term unemployed.

3. Extended Benefits: Their recent evolution and UI modernization

During periods of high unemployment, two programs supplement the regular UI benefit program by extending the duration of unemployment benefits. Introduced in 1970, the permanent federal-state Extended Benefits (EB) program is designed to help workers when state unemployment rates reach levels above the "normal state" of affairs in the labor market. States can choose how such an extension is triggered, either using the ratio of UI beneficiaries for the previous 13 weeks to the number of employees covered by state UI law—the Insured Unemployment Rate (IUR)—or using the overall unemployment rate measured by the monthly labor force survey averaged over a three-month period—the Total Unemployment Rate (TUR). Thirteen weeks of extended benefits are triggered in a state when the IUR equals or surpasses 5% and is at least 20% greater than the average of the rates for the same thirteen-week period in each of the previous two years. This trigger is mandatory. Two other optional triggers are available to states. The first would provide an additional 13 weeks of benefits if a state's IUR is at least 6%, regardless of rates in previous years. A second optional trigger is based on the TUR; states in which the TUR is at least 6.5% and at least 10% higher than the rate for the same three-month period in either of the previous two years are eligible for an additional 13 weeks. A further 7 weeks is available, or 20 weeks in total, if a state's TUR reaches 8.0% and meets the 10% look-back requirement. Extended Benefits are financed equally by the states and the federal Unemployment Trust Fund, or by general revenues when these funds are depleted. In the Great Recession, however, funding was fully federal. Once triggered, the extensions "remain on" for at least 13 weeks.

In addition to the Extended Benefits program, there are temporary emergency benefit programs. These are not triggered automatically but require ad-hoc decisions by Congress and are fully funded by the federal budget. Up to four tiers of Emergency Unemployment Compensation (EUC) were available to states during the Great Recession. For a time, all states received up to two tiers of benefits, or up to 34 additional weeks. States with higher unemployment could receive two additional tiers as long as their TURs met the required thresholds. Annex 2 documents an impressive list of all UI extensions in recent decades. The extensions are an important aspect of the overall UI system. During the Great Recession, the emergency extensions, in combination with Extended Benefits, increased overall durations by up to 73 weeks. When added to 26 weeks of regular benefits the maximum potential duration reached 99 weeks in a number of states. Extended Benefits ended in most states in mid-2012 and all EUC ended in December 2013.

Why was there such an urgency to adopt the Emergency Program?
Early during the Great Recession, the EUC was put in place as an ad-hoc program with great urgency because the normal Extended Benefit programs had not yet been triggered in several states. This was the result of low IUR levels. With recipiency rates low, even high and rapidly increasing unemployment was insufficient to increase the IUR to a level where it triggered an extension. For example, in Texas the TUR increased in the recession from 4.9% to 7.5%, while the IUR only rose from 1.1% to 2.6%, an increase insufficient to trigger an extension. By contrast, in Pennsylvania, TUR increased from 4.6% to 8.2%, and IUR from 3% to 6%.

At the beginning of the recession, only 11 states had the TUR trigger option in their UI laws. This changed when Congress authorized 100% federal financing of Extended Benefits under the Recovery Act in February 2009, many states switched to the TUR trigger based on total unemployment and gradually triggered into the EB program. By the end of the 2009, 38 states had adopted the TUR option and were paying Extended Benefits.[7] However, as soon as the federal funding stopped, some states returned to the IUR trigger—an example of how state-specific funding interests can lead to protection levels below what the Council refers to as the "national interest." This raises questions regarding the dynamics of the federal-state relationship to be discussed later.

[7] It is worth noting that states that have legislated shorter duration of the regular benefits earlier face proportional cuts also in the extended durations (for details, see Table 2 in Isaacs, 2013).

Emergency Benefits, Federal Conditionality and Modernization

The legislation on benefits for the crisis period contained a reach-back provision that allowed the unemployed whose benefits ended earlier to receive EUC benefits. For a time, federal legislation also provided a weekly benefit supplement of $25 as Federal Additional Compensation (FAC). This was linked to "a non-reduction rule" concerning levels of regular weekly benefits. During that time, states were not allowed to amend the method of calculating benefits in a way that reduced the average weekly benefit amount. This rule was then extended to the EUC program. The non-reduction rule did not extend to reducing the maximum potential duration of regular benefits while EUC and Extended Benefits were in place. Missouri was the first to cut weeks in 2011, and several states followed suit. North Carolina violated the non-reduction rule when it changed the rule for setting the maximum weekly benefit in a way that substantially reduced the average weekly benefit. In North Carolina, EUC benefits ceased to be available as of July 2013, a case where federal conditionality did bite.

Congress went beyond these extensions of benefits and offered grants amounting to $7 billion for the "modernization" of state UI systems in order to provide more effective support for the unemployed, particularly the more vulnerable. States should facilitate eligibility, change aspects of the benefits calculation, and improve reemployment services. To get the full federal grants, states had to establish alternative base periods for eligibility, including consideration of the most recent quarter, which helps laid off workers who were previously unable to get benefits because the formula failed to account for recent periods of employment. States also had to provide at least two out of four other improvements, three of which were related to expanding access to benefits for specific groups: part-time workers, workers who left a job for compelling family reasons, and unemployed workers on training without official authorization. The fourth optional improvement was to offer a dependents allowance. Five states accepted only the alternative base period. Thirty-six added or already implemented two of the four eligibility improvements. States were not obligated to continue adopted improvements after the expiration of the additional support, though all but five did.

The modernization initiative is an example of the federal level leveraging financial support in exchange for systemic change at the state level aligned with a set of federal objectives. One could consider improvements in 41 out of 50 states a great success; however, with five states choosing not to continue the improvements, only two out of three states have made permanent improvement to their system. Is this still a success? Does the "national interest" not require a permanent improvement of protection across the whole territory?

While the modernization program was about expanding access to benefits, the EUC programs included stronger job search requirements including "systematic and sustained" work search, and the American Recovery and Reinvestment Act of 2009 (ARRA) contained additional funds for reemployment promotion by states (Whitaker and Isaacs, p. 16). States were mandated to introduce and implement Reemployment Eligibility Assessments (REA) for unemployed receiving EUC benefits, with the stated goal "to provide unemployed workers who receive UI benefits with early access to specific strategies that can help get them back into the workforce faster. The strategies include developing a reemployment plan, access to relevant labor market information and referrals to reemployment services and training, as well as assessing their on-going UI eligibility" (Oates, 2012).

4. UI Administration: Encouraging job-search, matching, and activation

The Workforce Innovation and Opportunity Act (WOIA) and its predecessor, the Workforce Investment Act (WIA) have increased funds for labor market measures, employment services, job search, counseling, and training (Wandner and Eberts, 2014). These programs respond to the increase in long-term unemployment that persisted even as unemployment rates began to decrease. This has put cooperation between employment services and UI administration back on the national agenda.

New Deal legislation linked unemployment insurance and employment services, mandating two functions for employment services: check the job search requirement for those receiving unemployment benefits and provide reemployment services to claimants (Wandner and Eberts, 2012). The trend towards closer cooperation between UI and employment services began in 1993 when Congress required states to "profile claimants" through the Worker Profiling and Reemployment Services (WPRS) program. States were required to identify those most likely to exhaust their benefits and ensure they received individualized reemployment services (RES). Later Congress mandated "Reemployment and Eligibility Assessments" (REA). Claimants were required to have personal interviews with staff in one-stop centers to check their job search efforts and to assess whether training or other support services were needed. The purpose of these interviews was equally to prevent and to detect improper payments as well as to promote reemployment of claimants. The Department of Labor offered financial support to states to carry out these interviews. In the 2000s, following these two legal initiatives, the Department of Labor provided financial support to states that had launched REA or RES programs and were ready to evaluate them. The evaluation of programs in Nevada, Florida, Illinois, and Idaho confirmed that early intervention based on profiling could save considerable resources and reduce benefit duration (Poe-Yamagata, Bemus, et al., 2011). The Nevada program proved to be particularly efficient as it combined assessment (REA) with actual reemployment services (RES). Over time the program was extended to almost every state.

More recently, in view of the improved labor market situation and the high level of long-term unemployment (for US standards), the Reemployment Services and Eligibility Assessments (RESEA) program has become an even more important priority for the Department of Labor. The Department issues related guidance, requires reporting, and offers grants to states. The program is an important example of a frequently used method for guiding state policies: by funding model programs and providing public recognition to successful states, the federal government encourages other states to implement similar programs.

The federal-state cooperation emphasizes a One-Stop Delivery System combining services offering labor market information and employment support. Cooperation between federal administration and states is formalized through contracts that require states to adopt long-term policies; to implement plans with goals, benchmarks, and corresponding indicators; and to follow through with reporting obligations (Bradley, 2015). As the employment service is charged with the task of "work tests for the state unemployment compensation system" and "referral of unemployment insurance claimants to other federal workforce development resources," agencies that provide benefits such as UI or TANF are considered to be integral partners in the one-stop shop design (Bradley, 2015, pp. 6-8).

The overall impression from discussions with officials and experts is that a majority of UI recipients do not benefit from labor market services and that the degree of profiling and related service provision varies greatly between states. This might explain why the 2016 budget proposal for the Department of Labor reads, “ensuring that the UI safety net is blended with strong reemployment service delivery through American Job Centers remains a high priority for the Department,” and that this statement is repeated verbatim in the 2017 budget proposal.

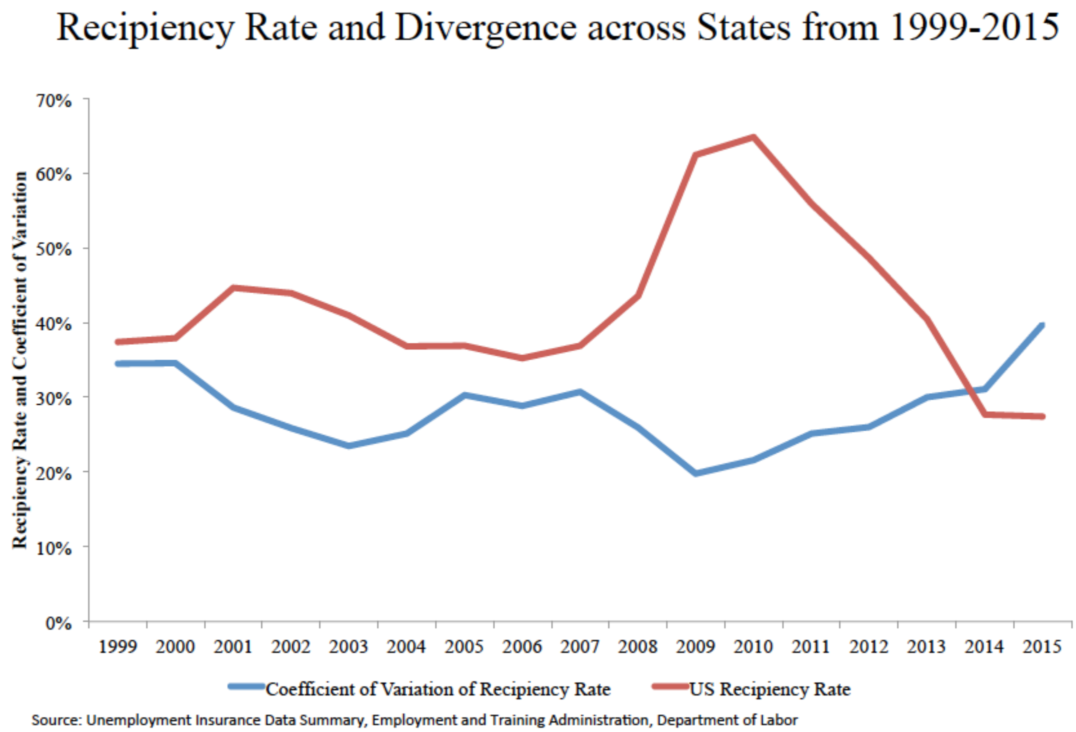
5. **Assessment of outcomes: Adequacy, poverty reduction, stabilization, and labor market integration**

Adequacy and stabilization of incomes

Considering the key goals of the UI program, the assessment starts with the income replacement objective. The paper concentrates on the share of the unemployed that receive benefits (recipiency) rather than the level of benefits although a complete assessment would require also to analyze benefit replacement. Table 2 shows the relatively low share of unemployed workers who receive benefits in “normal” periods and the massive increase in rates of recipiency of unemployment benefits in the years of the Great Recession. Studies conclude that such increases are typical for all recessions, but that the increase was particularly strong in 2008-2010. For the years following the Great Recession, the opposite is reported: a massive decline in recipiency rates as the special benefits fully-funded by the federal government expired. Recipiency rates reached all-time lows in 2015. While variations in recipiency rates are to be expected as workers who become unemployed in recessions are on average more likely to be eligible than in periods of economic recovery the level of variation and the differences between states suggest also the significance of institutional factors. In this respect the main reasons seem to be the restrictions to eligibility and the reductions in the regular duration in some states. Also changes in labor market structures occurred between before and after the recession that make it less likely to acquire a right to a UI benefit. The wide variation of recipiency among states is so extreme that the US average can be misleading, especially since federal action during recessions increases recipiency everywhere. In 2015, ten states, including three of the most populous, had recipiency rates below 15% (see Table 2). It seems that the present system does not meet the adequacy goal evenly across the whole nation, in particular during periods when supplementary federal programs are not in effect.

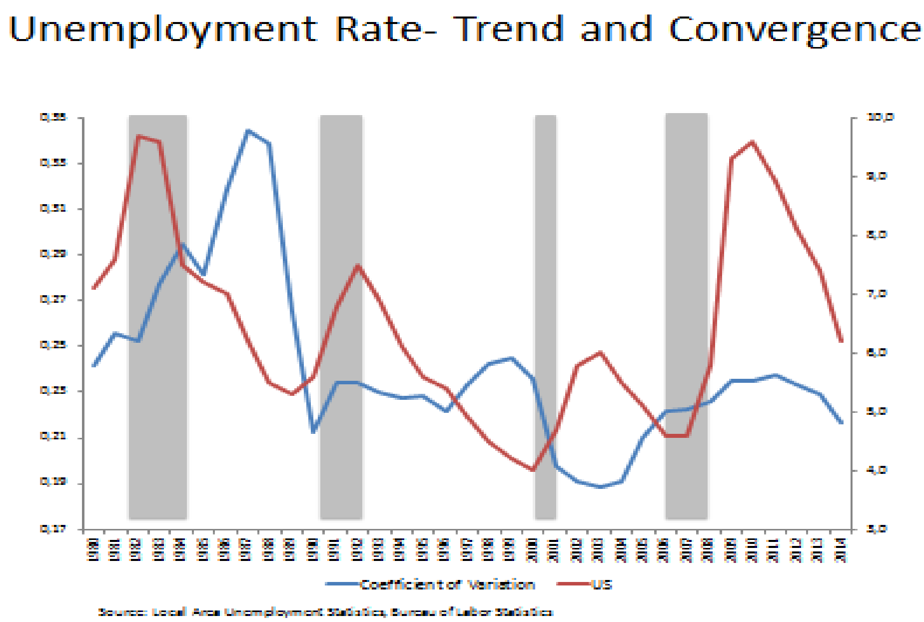
UI is seen as a critical economic stabilizer during recessions. Graph 1 below on the cyclical variation of UI benefit recipiency across states, coupled with the detailed state-level information in Table 2, shows how recipiency rates almost doubled in the Great Recession and how the differences between states declined strongly, as shown by the coefficient of variation in the graph. Benefit levels also increased. According to analysis by the Congressional Budget Office (CBO), UI helped to stabilize the income of population groups with a high propensity to consume, and, as a result, led to increased demand in the US economy (2012). An in-depth study by Wayne Vroman on the impact of the UI Program during the Great Recession concluded that, on average, every dollar spent on UI benefits generated $2 in economic activity (2010). Teresa Ghilarducci (2012) underlines the strong stabilization capacity of UI in relation to its limited financial size.

Graph 1



The strong stabilization capacity of the UI system results from the design of the system of extended benefits. The federal level is largely responsible for funding programs that extend benefit durations. Graphs 1 and 2 on unemployment and UI recipiency trends illustrate what happened in the recent recession. As unemployment went up, variation between states unemployment rates declined. Then in the early years of the recovery, divergence of unemployment rates between states increased and stabilized at a higher level. In the following years unemployment and the variation across states came down together. Benefit recipiency followed the unemployment trend. When unemployment increased, state recipiency rates increased nationwide, and the differences between states declined. As soon as unemployment decreased, average recipiency declined and variation between states increased again. Trends in the most populous states confirm this picture (Annex graphs 5a-b). Unemployment impacted all states fairly significantly; in some states, unemployment went down more quickly than in others, but by 2015 unemployment rates were down in all states. So the federal extension supported workers in those states where and when support was really needed when unemployment is very high. The extension ends when unemployment falls. Unemployment in states declines at different speed but finally converges to low levels. So federal support remains temporary and this might explain why there is little concern about permanent subsidization of high unemployment. The federal intervention impacts differently. During the Great Recession, the federal government provided considerable support workers in states based on their *respective* unemployment rates. States that face higher increases in unemployment and those that start with lower recipiency rates benefit more significantly.[8]

Graph 2



Poverty reduction is often considered a goal of UI although it is not explicitly defined as such. A report by the Congressional Research Service shows that "UI benefits appear to significantly reduce the incidence of poverty among the population who receives them. The UI benefits' poverty reduction effects appear to be especially important during and immediately after recessions" (Gabe and Whittaker, p. 24, 2012). While cautioning about the limitations of the analysis, the report concludes "the poverty rate for persons in families who received unemployment benefits in both 2009 and 2010 was approximately half of what it would have been without those unemployment benefits. In 2011, UI benefits lifted an estimated 2.3 million people out of poverty, of which well over one-quarter (26.8%; 620,000) were children living with a family member who received UI benefits." The Congressional Budget Office estimated that the poverty rate in 2009 without UI benefits would have been 15.54% against the actual 14.3%.

Looking at adequacy, poverty reduction, and stabilization together one can conclude that UI system proved its worth in the Great Recession.[9] In periods of less economic stress, success

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[8] Note that there is an ambiguity which states benefit more - those that are more generous in their own scheme or those that are less. The financial transfer from the federal government is determined by three factors: the increase in recipiency, the increase in unemployment, and by the average benefit. Often states with higher recipiency rates (for example Massachusetts) also have higher benefit levels, so the federal transfer can still be quite substantial.

[9] There is an important caveat: the analysis focused on recipiency (whether unemployed workers received benefits) and not on the level of replacement. Remember the Secretary of Labor demanded replacement of at least one half of the wage).

seems to be far less evident. UI provides adequate protection for a far smaller slice of the working population.

Rapid labor market integration

Receiving unemployment benefits might prolong job search and duration of unemployment, which in turn might lead to negative signaling effects and make reemployment prospects worse. Equally, one could argue that income support allows time for job search and improves matches, leading to higher productivity and earnings. If UI is managed well, the unemployed who receive benefits will regularly search for jobs, will contact the employment service, and will receive job offers. The unemployed are also less likely to drop out of the labor force, which might increase the measured unemployment rate in the short term.

There is ample quantitative analysis of the impact of the UI system on labor market return of the unemployed. One prominent study analyzed in great detail the UI system using a time use survey and found three important trends (Krueger & Mueller, 2010, pp. 298-307):[10]

1. Job search activity decreases with higher benefit levels;
2. There is a positive job search effect before benefits expire and a negative effect after they do;
3. Unemployed who receive benefits devote significantly more time to job search than those who do not receive benefits.

Research by the same authors on the recession years is quoted in a document published by the Executive Office of the President, (2011, p. 9). Transitions to employment decline with the length of unemployment, and the somewhat higher unemployment resulting from extended benefits is "attributable primarily to lowering the number of people who leave the labor force rather than lowering the number who become employed". Krueger and Mueller warn that excluding people from extended benefits when unemployment is high might lead to permanent withdrawal and applications for disability benefits.

A study analyzing the impacts of differences in the maximum durations due to different extensions of emergency benefits between states shows fairly different results (Hagedorn, Karahan, Manovskii, & Mitman, 2015). The study suggests a significant increase in duration and unemployment due to the extensions, particularly in the later years. By using trends in similar counties in states with different systems, the study concludes that longer durations via labor demand effects reduced employment creation and increased unemployment duration. [11]

Katharine Bradbury (2014) uses individual micro-data from the Current Population Survey for the period between 2005 and 2013. During this period, duration of unemployment benefits in states differed greatly not only because of the federal extensions, but also because of differences in the base schemes and the level of unemployment. This provided the setting for quasi-experimental research: in the period under examination, variations in duration of benefits led to

[10] Note: This study does not cover the period of the Great Recession.

[11] Bivens, Smith, & Wils, 2015 propose alternative interpretations for these results.

differences in unemployment rates due to changes in activity rather than in employment (Bradbury, 2014). In other words, extended benefits led to longer unemployment duration, while those who did not benefit from extensions tended to drop out of the labor force.

As the differences in recipiency rates between states are so striking, I was curious to see whether they align with differences in long-term unemployment or participation rates. Graphs 1-4 in the Annex plot the long-term unemployment rates and recipiency rates, as well as changes in participation rates and recipiency rates, across all 50 states in 2012 and 2014. One would have expected that states with higher recipiency rates would have higher long-term unemployment rates. Indeed, in 2012, states with higher recipiency rates also had somewhat higher long-term unemployment rates. However, in 2014, this was no longer the case. As discussed above, lower recipiency rates could also mean that fewer people are in touch with the UI system and have consequently left the labor market altogether. In 2014, states with higher recipiency rates displayed less participation decline than those with lower recipiency rates; however, this effect seems to have been very moderate. To test causality one could carry out a study using micro-data (as in the Bradbury study) that follows individual workers.

A fairly recent study published by the San Francisco Federal Reserve looked at the recession and the post-recession period using panel data from the CPS under the assumption that workers who reported a job loss and unemployment for more than three months received UI-benefits. "We conclude that the phase-out of extended UI is not important for explaining why labor force participation has remained low during the recovery. A stronger implication of our results is that the UI extensions have not had large moral hazard effects on recipients' job-finding rates, either during the worst period of the Great Recession or during the subsequent recovery" (Farber, Rothstein, & Valetta, 2015, pp. 9-10).

Another recent study using panel and micro data shows that unemployed that received TANF (social assistance) and unemployment benefit stay longer unemployed when receiving UI benefits, but do better in the labor market later on – in the following quarter incomes are substantially higher than for those who were not eligible for unemployment benefits. (Leung and O'Leary 2015).

The conclusion on the labor market integration objective seems to be that providing unemployment benefits is an important channel to maintain workers in the labor market and potentially to encourage job search. It requires active reemployment efforts as demanded by Congress in extending benefits and requiring modernization packages (Executive Office of the President, 2011, p. 17).[12]

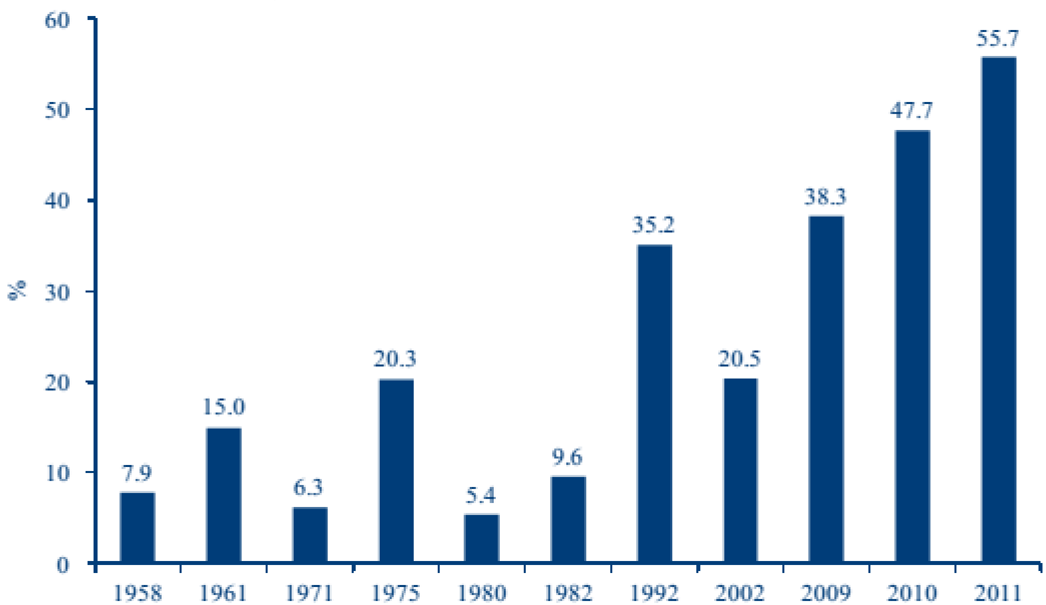
6. Financial sustainability: The political economy of the state-federal relations

How sustainable is funding of the UI state-federal partnership?

[12] Emergency benefit programs contain stronger job search requirements, and states are encouraged to use intensive assessment and counseling measures for the long-term unemployed.

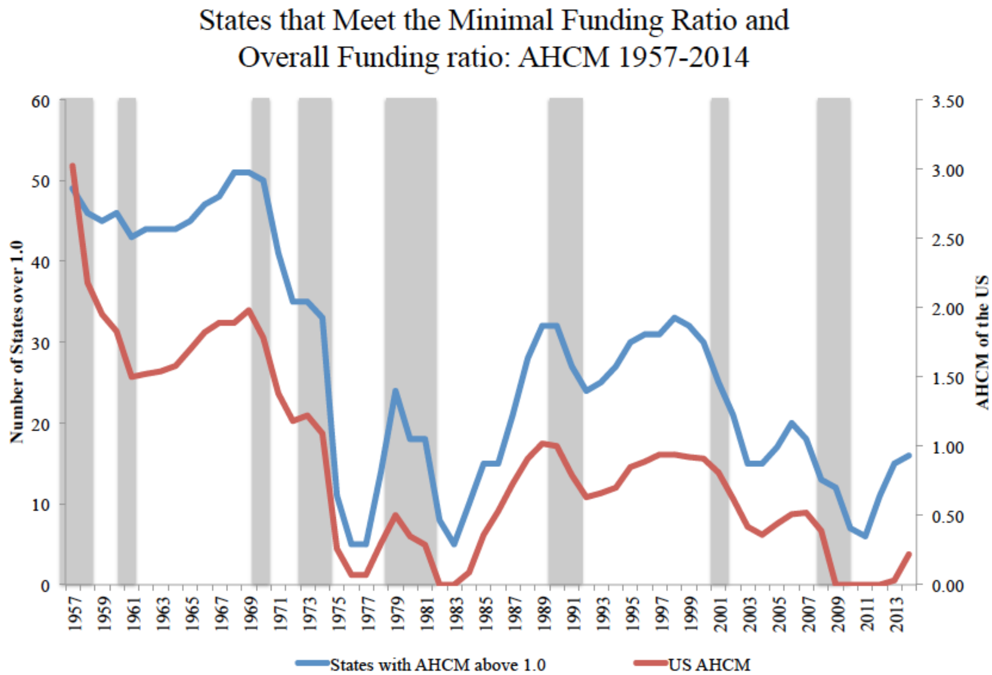
The extension of benefit durations led to an unprecedented level of federal funding, at levels of 38%, 48%, and 56% of total unemployment benefit payments (O'Leary, 2013). In the 1992 recession, federal funding peaked at 35%, and in 2002 funding peaked at 22% (Woodbury, 2014, p. 23*).* The central feature of the UI system is state funding, and federal funding does not and is not intended to ensure the long-term sustainability of the system. In the Great Recession 36 state trust funds became insolvent (Woodbury, 2014, p. 26). The high insolvency of state trust funds shows that the sustainability of the state UI schemes is not guaranteed. States failed to build up reserves during good times in preparation for recession years. The "preparedness" of state UI schemes for the last recession is measured by a Department of Labor Indicator, the Average High-Cost Multiple (AHCM) Ratio: the minimum solvency is defined as the capacity of the state trust fund to fund through reserves a full year of benefits as experienced in the worst recessions in the prior 20 years (ratio 1.0). In 2007, the year before the big recession, only 19 states met the benchmark of having a ratio of 1.0 or more and more than 15 had a ratio below 0.5, including California, New York, Texas, Ohio, North Carolina, and Illinois—six of the ten most populous states.

Graph 3: The Federal Share of Total UI Benefit Cost in Previous Recessions and in the Great Recession, 1958-2011



Source: O'Leary, Christopher J. 2013. "A Changing Federal-State Balance in Unemployment Insurance?" Employment Research 20(1): [1]-4.

Graph 4



Adjusted and updated version of graph from Mike Evangelist, NELP

The balance between benefits paid and contributions collected deteriorated from the mid-1970s to the mid-2000s, indicative of systemic underfunding. The blue line in the graph 4 on AHCM shows the number of states that meet the benchmark declining between cyclically comparable periods and how weak the increase is following the Great Recession. Consequently, the average funding ratio for the US overall is on a long-term trend of decline as seen by the red line.

A second reason for the doubts about the sustainability of the UI scheme is related to the funding structure of state UI funds. Revenues are determined by the tax rate and tax base, and many states had not adjusted them to increases in earnings. The deep recession was not seen as a time to adjust the funding parameters, but even as the recovery started, most states did not realign their funding parameters. If adjustments were made, they focused on eligibility and duration. In theory, states could almost always fully fund their obligations whether the state wage base is higher or lower and whether the base is indexed or not. In theory, in a system of experience rating, tax rates should adjust accordingly. However, not adjusting the tax base to inflation or wage growth has implications: benefits will increase with nominal wage growth and financing requirements will rise quite strongly. Andrew Stettner (2016), in an analysis of the financial situation of the UI system, reveals a remarkable trend: "the steady decline in the proportion of wages subject to UI taxes. This taxable wage proportion (TWP) was just 26.9 percent in 2014, down from an average of 30.5 percent in 2000 and from 37.6 percent in 1990" and over 50% in the mid-1970s (p. 15). To compensate for such a decline would require a very strong increase of the employer's tax rate on the tax base. This would prompt resistance from employers and accusations that states are "increasing taxes" even if the actual tax rate on the total wage bill increased very little, or, as in the extreme case of California, where the tax rate on the wage base increased from 4.5% in 2006 to 5% in 2015, but the tax rate on the average wage declined from 0.9% to 0.8% (Table 3).

Table 3 shows average tax rates on the base wage and on total wages. Although unemployment is still higher and funds not yet in balance in 2015, the levels of taxation are in many states below 2006 levels. Therefore, a further rise in unemployment would put the state funds in jeopardy. The *State Unemployment Insurance Trust Fund Solvency Report 2016,* published by the Department of Labor, summarizes: "At the beginning of this year only eighteen states have reached what is considered the minimal level of adequate solvency while four state UI programs still have approximately $7.3 billion in outstanding Federal loans and six states have an additional $8.3 billion in outstanding private borrowing."[13] This status comes after several years of declining unemployment and stable economic growth. As a general lesson, Vroman and Woodbury conclude that states with low tax rates and tax bases risk underfunding and insolvency in "bad times," even if they cut benefits and duration. On the other hand, states that index the tax base are far less at risk of insolvency.

Sustainability concerns apply to both levels: many states cannot guarantee full funding over the cycle, and there is also uncertainty at the federal level as federal extensions need to be funded from the federal budget. Several authors have identified this vulnerability and offered explanations for its persistence. West and Hildebrand (1997) analyzed the funding balance in the early 1990s and identified a trend towards underfunding. While pointing to rising tensions and a declining federal engagement, they concluded that the system seems to have muddled through. A "solvency philosophy" shared by the states had prevailed and allowed state funds to return to solvency. They warn that this solvency philosophy will compromise the basic objectives of the program (p. 585-587).

Does the federal-state relationship in funding create perverse incentives?

The graph on AHCM above shows a further deterioration in the funding performance since the early 1990s, and no wonder later studies are more pessimistic. Brian Galle (2012) thinks the system does not work and needs fundamental repair; and Mike Evangelist (2012) shares a similar view. Galle offers explanations for the seemingly irrational behavior of states through the concept of *fiscal myopia*. Usually myopia is used to explain why private insurance is insufficient and therefore social insurance necessary, as a significant proportion of the population would be "underinsured" for incorrectly judging the risks they face, either underestimating potential costs, as with health insurance, or having a limited time horizon, as with retirement planning. Fiscal myopia is sometimes used in a similar manner: when public authorities underestimate the costs of longevity for the pension schemes for their employees or for those schemes they supervise (like social insurance of pensions or long-term care).

I think the rationale here is somewhat different. Galle sees two reasons why states would underprovide: first, they rely on the possibility of borrowing from the federal fund and thereby shift the costs of a hike in recessionary unemployment into the future. Galle recognizes that the UI system was wisely designed, for when states do not pay back their debt after two years, the

[13] The minimal level of solvency is defined as the level of funds needed to finance benefits including the state share for extended benefits during a period of one year.

employer contribution is increased. But Galle explains that, as this is a 0.3% increase of the federal base, the cost only amounts to $21 per employee, as the tax base has not been increased for such a long time. Therefore, the pressure employers would exercise on the states to avoid such situations is weaker than the authors of the UI law expected. Indeed the federal tax base was the same in the early 1990s when Hildebrand and West felt that the system was still working, even if with rising tensions. One could say that the real reason is not—or not exclusively—state myopia, but federal inaction (also discussed in Hildebrand and West's paper). Congress could have legislated increases in the wage base and indexed it to wages. But it did not. This is not just about dysfunctional behavior of the states but also of the federal level. It fits with their observation of a declining interest of the federal actors in UI matters. Second, Galle argues that there is a specific election cycle-related myopia at the state level. There is a considerable time difference between the moment when state policy makers should ensure sufficiently high tax rates for building reserves and the moment when the repayment of debt through increased employers' contributions starts. Election cycles could be much shorter. Hence moral hazard is a crucial factor here as well.

To summarize, the funding of the UI system is characterized by vulnerability that comes to the forefront when unemployment dramatically increases during a recession. This vulnerability is systemic: states seem to have too little incentive to forward finance and the federal level does not counteract decisively. Hence solutions are always ad-hoc. There is a tendency at the state level to look for solvency at the expense of the quality of protection, which forces the federal level to act as guardian of sustainable finances and to provide adequate benefits for the unemployed. As capital mobility is high, decision-making at the state level might not be optimal. Considerations on the political economy of state-federal relations are helpful when thinking about reforms of the system and about a multilateral social benefit system in the Euro Area.

7. Recent proposals: Extend eligibility, stabilization, and proactive policies

President Obama announced in the 2016 State of the Union Address a further initiative for modernizing unemployment insurance that includes proposals for expanding coverage to part-time, low-income, and intermittent workers, and those leaving for compelling family reasons; providing 26 weeks of coverage; incentivizing states to offer and allow retraining for workers on UI; expanding intensive career counseling to the long-term unemployed, discouraged, and part-time workers; and offering prolonged benefits duration of up to 52 weeks when unemployment increases and in states where high levels of unemployment continue. He also proposed "wage insurance" to facilitate job take-up of workers whose jobs have been destroyed by structural change and wider use of short-time work to smooth transitory job loss and preserve qualified labor (The White House, 2016).

The Department of Labor translated the President Obama's initiative into proposals for action in the 2017 budget proposal (that was not adopted). It proposed to change the funding parameters and enact new federal standards (Department of Labor 2016a, pp. 19-21). It suggested restoring a 0.2% surtax to the FUTA tax beginning in 2017, increasing the wage base to $40,000 in 2018, and indexing the wage base after that. It proposed reducing the effective FUTA tax to 0.167% to avoid an overall tax increase in 2018. It also proposed a minimum tax rate per employee of

0.175% of the tax base ($70 in 2018)." The budget proposal suggested a duration of at least 26 weeks as well as the familiar three routes to improve eligibility: alternative base period; benefits for those who seek part-time, eligibility of workers who leave for compelling family reasons. The proposal foresaw a new permanent, federally funded Extended Benefit program. "The mandatory insured unemployment [trigger] will be replaced by a modification of the current optional total unemployment trigger (p21)." Trigger thresholds will be unemployment rates of 6.6%, 7.5%, 8.5%, and 9.5% and each will trigger an extension of 13 weeks. Both increases in and high levels of unemployment could trigger extensions. The funding would follow the current extended benefits, but "if that [state] account does not have sufficient funds, funds will be provided from the General Fund through non-repayable advances (p22)." The proposal contained also measures to enhance job search and reemployment measures.

These proposals would certainly have accelerated the stabilization function of UI and removed some inadequate provisions that result from negotiations to pass the extensions quickly. Predictable and regular extended benefits would also relieve administrative burdens from states forced to patch together computer system fixes at the last minute[14] thereby reduce costs and improve service. The proposed system would adjust automatically to changes in cyclical conditions, an approach that has been proposed several times in Europe (see FN 2).

There could also be costs of an economic and political nature. Under certain circumstances, the federal system would finance extended benefits without requiring compensatory measures at the state level in states where unemployment is high for long periods perhaps due to structural mismatch in the local labor market. Should the federal government fund UI benefits in such a situation? Would such funding reduce the pressure on state authorities to improve the functioning of the local labor market or to balance generosity and employers taxes adequately? This leads to a point West and Hildebrand have raised regarding the balance between the degree of taxation and the level of protection offered. Galle follows West and Hildebrand in this respect: "Given the political economy of sub-national UI-funding…there is reason to suspect stated decisions about benefits levels will fall below the national optimal. I doubt that even extensive federal funding would fully offset this underprovision" (Galle 2012, p. 17). He raises yet another concern: as states have significant control in the US over the employment relationship, they also have the power to define what is a separation and whether it is eligible for benefits. If the definition of eligibility would move to the federal level, tensions and conflicts would arise between state UI legislation and administration and national labor law.

On full federal automatic funding of extended benefits some policy makers emphasize that presently Congress adopts the extensions involving both houses and typically also both parties, giving them a solid political basis across the political spectrum and the country. This makes them less vulnerable to criticism for being too generous or inadequate or for centralization through the backdoor. So establishing an automatic system might weaken the political legitimacy of the extensions.

Proposals on extending short time work to all states builds on earlier modernization efforts. At the beginning of the recession, only 17 states included work-sharing in their UI laws, and the

[14] Chris O´Leary drew attention to this point in one his many very useful comments on this paper.

Middle Class Tax Relief Act of 2012 offered incentives to encourage states to establish work-sharing and employers to use work sharing. Today there are about 26 states with such arrangements, but in practice they are little used. The potential is considered to be substantial (Abraham & Houseman, 2014). Given positive experiences in some European countries, particularly in Germany, this is seen as a promising area for avoiding unemployment and the resulting loss of experience and skills by workers and enterprises. The emphasis on a broader use of work-sharing is supported by European experiences. The European Foundation for the Improvement of Living and Working Conditions assessed European experiences in the recent crisis (ERM Report 2010). Work-sharing works best in sectors and activities where one can expect economic activity to pick up again. It can also be used when lay-offs are unavoidable if it is combined with retraining for workers to get ready for jobs in another part of a company (ERM 2010, pp 87/88). One main message of this report is that work-sharing schemes are particularly effective when both workers and employers support them, especially at the company level. Employers understand that maintaining a workforce is in their interest and workers feel that a temporary partial loss of income will pay off as they keep their jobs for longer with a company that offers a long-term perspective. Developing a climate of mutual trust between workers and employers seems key for expanding work-sharing arrangements.

Wage insurance is in essence a transfer paid to a displaced worker who accepts less well-paid jobs. Wandner reports the history of such schemes and the limited experience with them, as they were targeted only towards small groups of workers in the past. The wage insurance proposal would cover longer periods of employment and a much wider target group of workers displaced by structural changes, including workers with higher earnings for whom downwards adjustment is particularly difficult. The total subsidy would be up to $10,000 for two years and for annual incomes up to $50,000. As Wandner states, the Obama proposal differs from previous ones in that it covers all displaced workers regardless of age or cause of job loss (2016, p. 42). It would be at the first test on a great scale for an often-discussed idea and is clearly relevant given the foreseeable acceleration of structural change. Two underlying ideas could be behind the proposal. First, structural change could mean that mismatches increase, because workers who have lost their jobs need some time to build up the same level of experience and skills they had in their previous activity. In this transition period they would be less productive with lower earnings, and the subsidy would compensate them. Second, the proposal could serve as a means to smooth a permanent downward wage adjustment.

To my knowledge the Republican Party has not published similar extensive proposals for further developing the Unemployment Insurance System. UI reform is, however, present in the welfare reform paper by the GOP Task Force on Poverty, Opportunity, and Upward Mobility led by the Speaker of the House Paul Ryan. The report is concerned with the rapidity with which the unemployed return to jobs and proposes to test "different strategies for reducing benefit duration and promoting employment" (better.gop p 12). The proposed route is to empower states to experiment with alternative policy programs by giving them more autonomy and to monitor carefully impacts on unemployment and funding. The instrument is to reauthorize and enhanced waivers from the standard unemployment insurance program.

Conclusions and Reflections

The US UI system is a mixed system of federal and state responsibility, and, even though a number of fairly far-reaching proposals have been made recently, there is little pressure or readiness to implement fundamental reform (West, Dutta-Gupta, Grant, Boteach, McKenna, Conti, 2016; Stettner, 2016). In the US, as in many federal states, fiscal stabilization is located at central government level. Hence, no wonder that a major federal effort was required to maintain the income support function of UI in the Great Recession. The extent to which this proved necessary perhaps exceeded expectations. Before the recession states had accumulated only minimal reserves during a protracted economic expansion, necessitating the comparatively early addition of federal support. Several states compromised goals of the UI system during the recession, especially as far as income support and investment in reemployment were concerned. The federal partner appeared as the protector of the shared goals of the system in three respects:

1. Benefit adequacy, notably eligibility and duration of the benefits;
2. Funding and stabilization;
3. Enforcement of labor market conditionality.

As part of the anti-recession efforts, the federal system used specific temporarily available programs to ensure that states pursued the three goals together when receiving funding. These instruments included providing conditional funding and imposing standards; legislating improvement but leaving states choices; maintenance of efforts clauses, goal- and benchmark-setting and reporting obligations including indicators to measure achievement towards goals. Despite of these federal efforts in the crisis Vroman and Woodbury point out, the federal record is not as clear as it might appear: “Congress has sent mixed signals about its willingness to ensure the viability of the federal-state UI system…[and] has not acted to raise the taxable wage or to improve the UI system’s finances, and it has resisted calls for rigid federal standards on eligibility and benefits. On the other hand it has gradually increased…federal requirements, extended benefits to greater lengths than in previous periods…All these actions suggest a greater Congressional will to assert authority over UI” (Vroman and Woodbury, 2011, pp. 17-18).

When the special programs expired, it became clear that states maintained significant autonomy for managing the regular system. While there might now be more uniformity between many states, eligibility differences between states are even larger than in the past. One wonders whether it is still possible to speak about a federal-state UI system when the share of the unemployed who receive benefits is below 15% in a considerable number of states. Similarly the differences in contribution rates and tax bases are striking. Some states have provisions that limit the scope for action on benefits and activation measures. Again as Vroman and Woodbury conclude: “For their part, most states (especially large ones) appear to be pulling back from a commitment to UI…In short, a distaste for payroll taxes and concerns about work disincentives…seem to dominate at the state level” (2011, p. 18).
The recent modernization proposals do not question the fundamental distribution of responsibilities but they do question the principle that it is exclusively for the states to determine eligibility, benefit levels, activation measures and financing parameters. Their intention is to move from crisis-driven temporary solutions to permanent ones. The implicit assumption is that the UI actors, and in particular states have an interest in receiving regular funding to provide

adequate benefits, services, and employment support more closely aligned with the fundamental goals of the UI system. A major advantage of nationwide mandates is that employers cannot take advantage of interstate competition and threaten the withdrawal of investment or relocation of companies.

However there are at least two reasons why such proposals are less promising than at first sight. The first could be disagreement with the underlying assumption that the declining relevance of UI is a serious economic and social problem. The second could be to question the wisdom of more centralization as it would encourage states to believe that the federal government would intervene in a subsequent case of emergency hence states do not need to commit now. This concern has been expressed explicitly by the GOP task force quoted above and one could see the proposal for state autonomy via waivers as a response to it. With Republican majorities in House and Senate this view is likely prevail and further moves to centralization are difficult to imagine. It remains to be seen whether the new Administration will go for a strategy of decentralization of responsibilities (perhaps through a system of waivers from certain federal obligations) thereby encouraging experimentation.

Finally, more specific conclusions for discussion at the European level:

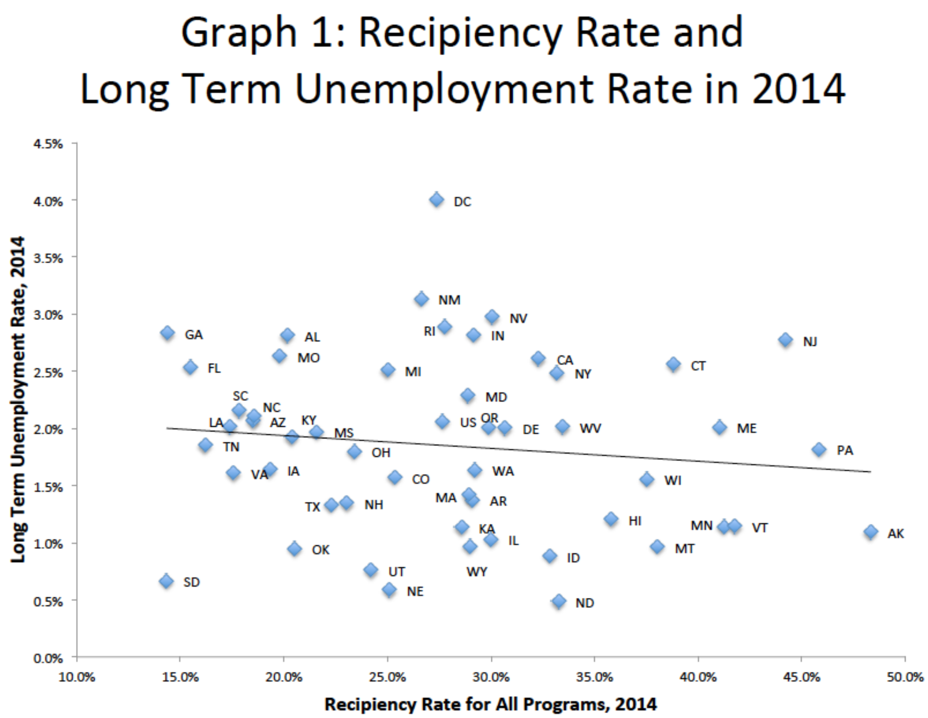
The US system is an example of federal-state cooperation that is relevant for a discussion of social and employment policies in a decentralized union as the EU with strong member states. US states have great discretion in determining eligibility, benefits, and activation as well as financing. The outcomes are quite mixed and do not suggest that this type of shared responsibility between state and federal levels works particularly well. States do not automatically embrace federal objectives in designing state policies. Furthermore, state-specific interests might dominate because states do not grant the same weight to the broader public interest as to low taxes on local employers. States may also speculate that federal action will help them should dire circumstances arise, and as a result, divert resources to other purposes. While actual outcomes are mixed and policy tensions exist the following points might be of interest:

1. The US federal-state partnership achieves the basic purpose of ensuring a nationwide UI system through imposing a federal tax that is largely reduced when states establish US systems - through very strong conditionality on "having a system" but none on the policy parameters such as eligibility, benefit levels or suitability of employment.
2. Experience rating deserves attention. The assessment of effectiveness in preventing lay-offs is mixed nevertheless it is an interesting feature.
3. The strongest stabilization impact results from extensions of the duration of unemployment benefits largely or fully funded by the federal level ("permanent transfers"). This leads to a strong increase in recipiency and the resulting increase in the incomes of low income people goes beyond what is known in most other OECD countries.
4. The strong and generally praised anti-cyclical impact in the US system results largely from discretionary decisions by Congress to fund extensions of duration and provide incentives for greater generosity in crisis situations. Such decisions are made quickly and regularly—they are "quasi-automatic." This implies strong funding power at the federal level and here is a significant difference to most proposals for Euro Area unemployment benefit schemes. Those proposals focus on early periods of unemployment and on the principle of no

permanent transfers – hence no final funding by the Federation as in the USA. (The major exceptions are proposals for reinsurance schemes).

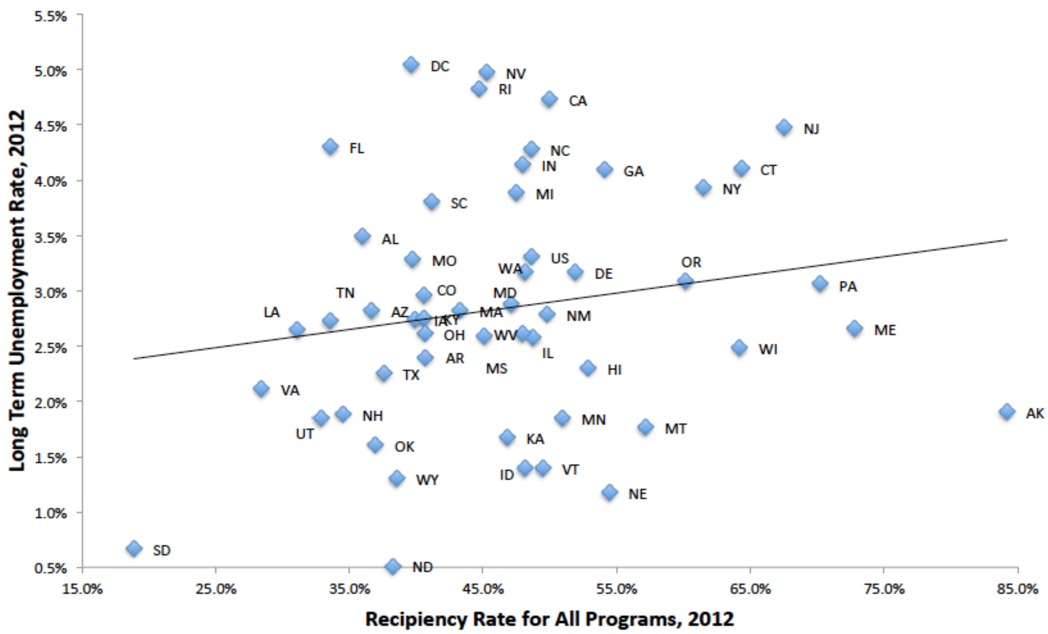
5. It seems that weak federal requirements to stabilize the financial parameters of state systems, combined with discretionary federal action in emergency situations, has created an incentive structure for states to neglect funding adjustments ex-ante and systemic improvements.
6. The rate of benefit recipiency differs widely between states, divergence has increased, and the adequacy of standard provision has declined in many states. The adequacy of UI provisions across the whole country does not seem guaranteed. Strengthening the conditionality of financial support seems to go only so far and this could point to limits of what one can achieve in terms of cross state divergence by conditional support.
7. While it seems that there are differences in program objectives between some states and the federal administration, there are also elements of fiscal myopia or moral hazard by states as they expect the federal government to fund longer durations. EU Member States are different from the US states, and the US federal level is far stronger than any fiscal capacity ever proposed for the EU or EMU. Nevertheless, the behavior of states and the federal government, the emerging tensions, and the systemic inefficiencies seem to be of interest and relevance.
8. The present system is weak in promoting reemployment and in helping those at the margins of the labor market. While the administration has tried to develop reemployment services for some years, this issue has only recently garnered broader concern. There is great divergence in the degree to which states encourage employment through benefit-related activities and provide general and targeted services. This is also the case in the European Union. Interestingly, concerns about these differences are far higher up on the European agenda than in the US. A first impression is that this might relate to differences in the speed of convergence after shocks in states' unemployment rates between the EU and the US.
9. Conditional funding has worked in emergency situations; many but not all states did respond positively to offers of additional funding by improving eligibility for UI and re-employment programs. And many of those states but not all maintained the structural improvements after the expiration of federal funding. So there is improvement but not across the board. This might be a relevant experience for European policy makers who see conditional funding as an important instrument for promoting convergence.
10. There is evidence that promoting best practices through a collaborative approach can work. Funding experimental policies in a limited number of states and dissemination of positive results has led to broader application of improvements in the benefit-activation link. Two points are noteworthy. The rigor of the evaluations to assess the success or failure of program changes in the US is remarkable in relation to European practices and the way the US federal government promotes dissemination with competitive grants to the states is another exemplary model.

Annex 1: Graphs & Tables



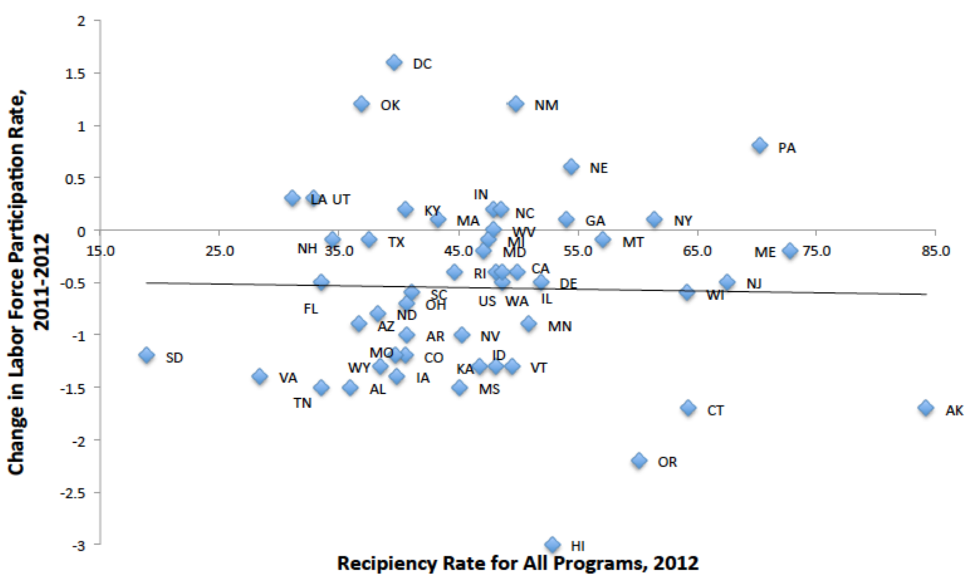
Source: Unemployment Insurance Data Summary, Employment and Training Administration, Department of Labor and Bureau of Labor Statistics

Graph 2: Recipiency Rate and Long Term Unemployment Rate in 2012



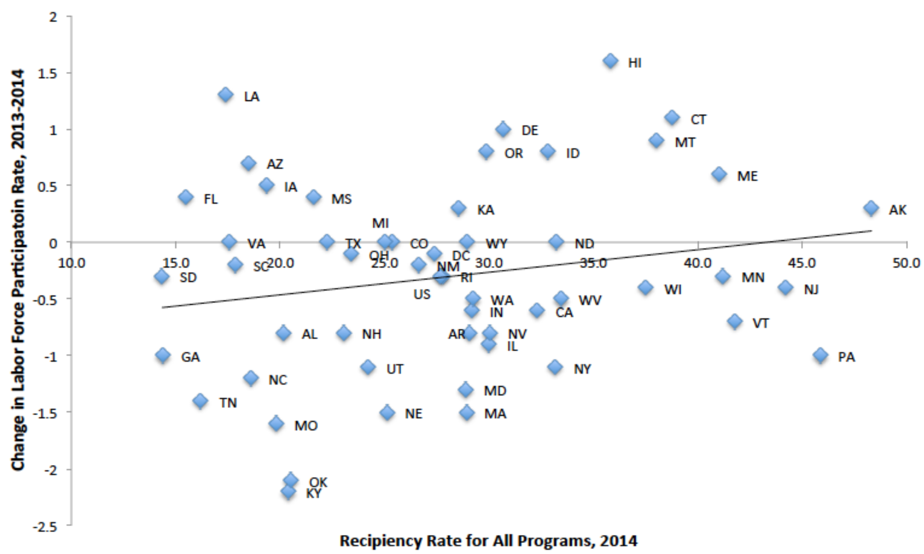
Source: Unemployment Insurance Data Summary, Employment and Training Administration, Department of Labor and Bureau of Labor Statistics

Graph 3: Recipiency Rate and Change in Participation Rate from 2011 to 2012



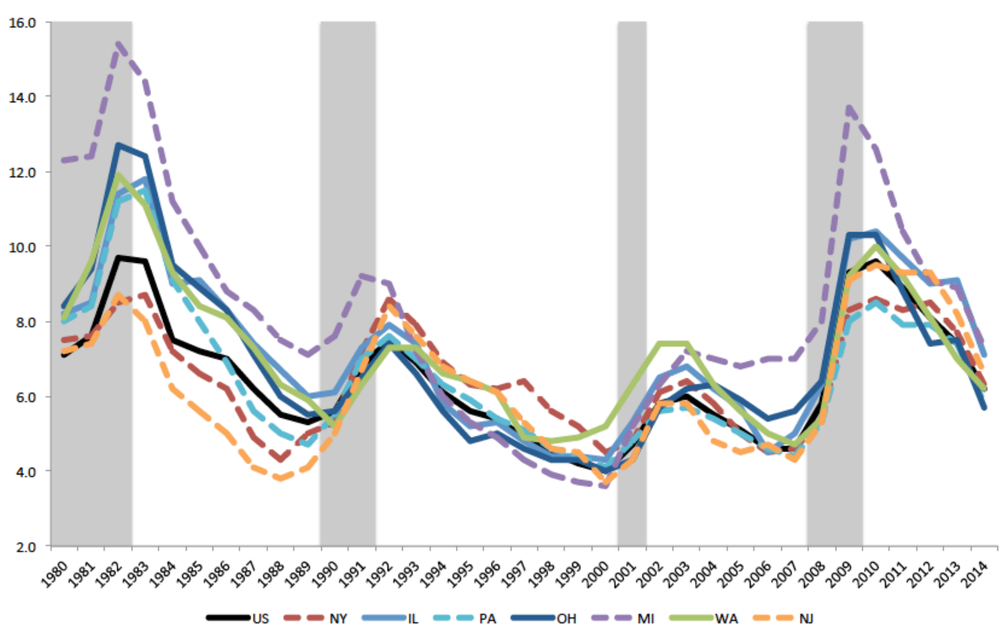
Source: Unemployment Insurance Data Summary, Employment and Training Administration, Department of Labor and Bureau of Labor Statistics

Graph 4: Recipiency Rate and Change in Participation Rate from 2013 to 2014



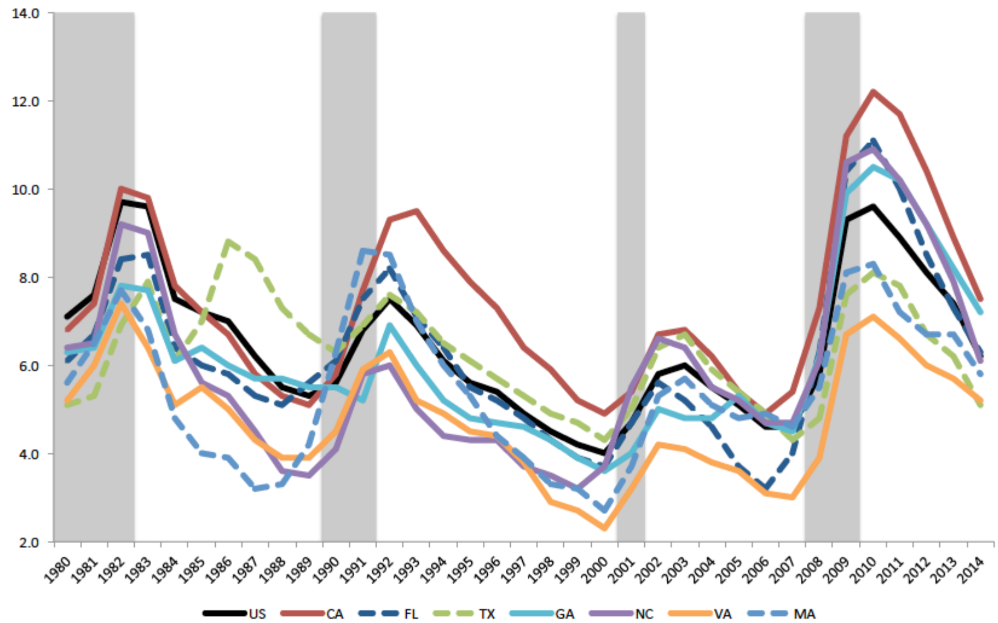
Source: Unemployment Insurance Data Summary, Employment and Training Administration, Department of Labor and Bureau of Labor Statistics

Graph 5a: Upper Seven States of Fourteen Populous – Unemployment Rate 1980-2014



Source: Local Area Unemployment Statistics, Bureau of Labor Statistics

Graph 5b: Lower Seven States of Fourteen Populous – Unemployment Rate in 1980-2014



Source: Local Area Unemployment Statistics, Bureau of Labor Statistics

Table 1 Unemployment trends in US and major states

Unemployment Rate of Fourteen States--2006, 2009, 2012, and 2015

	Labor Force Participation Rate				Unemployment Rate				Long Term Unemployment Share			
Region	2006	2009	2012	2015	2006	2009	2012	2015	2006	2009	2012	2015
United States	66.2	65.4	63.7	62.7	4.7	9.3	8.1	5.3	17.6	31.6	41.1	28.0
California	65.1	65.1	63.0	62.2	4.8	11.6	10.5	6.2	17.6	35.0	45.3	28.2
Texas	66.8	65.8	65.5	63.6	4.9	7.5	6.8	4.3	15.5	23.1	33.6	23.1
Florida	63.5	62.3	60.6	58.7	3.2	10.5	8.7	5.4	13.4	37.2	51.0	36.2
New York	63.2	63.2	61.4	61.0	4.5	8.4	8.6	5.3	22.2	34.0	45.3	31.1
Illinois	67.4	66.8	66.1	64.7	4.6	9.9	8.8	5.9	24.4	35.6	47.4	34.5
Pennsylvania	64.4	64.3	64.0	62.8	4.6	8.2	7.8	5.1	20.1	26.2	39.1	30.5
Ohio	67.2	66.0	63.4	62.3	5.4	10.4	7.2	4.9	18.3	29.8	36.7	25.1
Georgia	67.9	65.7	64.4	61.2	4.7	9.8	9.0	5.9	19.5	35.8	44.5	37.5
North Carolina	66.1	64.2	62.7	61.5	4.7	10.8	9.6	5.7	19.1	35.8	46.5	28.5
Michigan	65.1	63.1	60.0	60.4	6.8	13.9	8.9	5.3	21.2	40.8	42.5	28.7
New Jersey	66.6	67.2	65.9	64.0	4.8	9.1	9.5	5.8	18.3	36.3	47.4	37.1
Virginia	68.4	68.7	66.4	64.9	3.1	6.8	5.7	4.5	14.6	27.0	36.3	28.0
Washington	67.4	68.4	64.5	63.2	4.9	9.0	8.2	5.6	13.2	25.9	38.4	24.6
Massachusetts	67.0	66.5	65.3	65.3	4.9	8.6	6.5	4.7	16.3	31.1	39.7	27.8

Table 2 Unemployment Recipiency Rates in US and major states

Unemployment Insurance Recipiency Rate--2006, 2009, 2012, and 2015								
	Recipiency Rate for Regular Programs				Recipiency Rate for All Programs			
Region	2006	2009	2012	2015	2006	2009	2012	2015
United States	35.2	40.5	26.8	27.5	35.2	62.4	48.6	27.4
California	40.4	36.7	26.4	32.9	40.4	58.3	49.9	32.9
Texas	19.0	29.3	19.5	29.6	19.0	44.2	37.6	29.6
Florida	29.4	30.2	16.7	10.9	29.4	50.5	33.6	10.9
New York	41.8	42.8	31.8	34.6	41.8	70.7	61.5	34.6
Illinois	41.4	43.1	27.5	31.3	41.4	66.8	48.0	31.3
Pennsylvania	57.1	62.8	42.4	44.6	57.1	87.5	70.2	44.7
Ohio	31.2	37.3	23.5	23.6	31.2	57.3	40.6	23.6
Georgia	24.6	33.9	19.3	13.5	24.6	51.4	54.1	13.5
North Carolina	37.0	42.1	24.4	12.6	37.0	66.9	48.6	12.6
Michigan	43.3	39.0	24.0	26.3	43.3	65.6	47.5	26.3
New Jersey	51.1	49.0	32.6	43.2	51.1	86.2	67.6	43.3
Virginia	25.8	30.0	19.6	16.9	25.8	43.0	28.4	16.9
Washington	32.4	44.1	28.2	27.5	32.4	63.1	48.1	27.5
Massachusetts	48.3	49.7	43.8	44.8	48.3	78.1	72.8	44.8

Table 3: UI Financial information USA and major states

Unemployment Insurance Financial Information in 2006, 2009, 2012, and 2015

	Insured Unemployment Rate				Taxable Wages				Contribution Rate on Taxable Wages				Contribution Rate on Total Wages			
Region	2006	2009	2012	2015	2006	2009	2012	2015	2006	2009	2012	2015	2006	2009	2012	2015
United States	1.9	4.4	2.6	1.7	11,000	12,000	13,000	13,000	2.8	2.3	3.4	2.9	0.8	0.6	0.9	0.8
California	2.3	5.3	3.5	2.5	7,000	7,000	7,000	7,000	4.5	4.1	5.3	5.0	0.9	0.7	0.9	0.8
Texas	1.1	2.6	1.6	1.5	9,000	9,000	9,000	9,000	2.4	1.2	3.2	2.5	0.6	0.3	0.7	0.5
Florida	1.1	4.0	1.9	0.7	7,000	7,000	8,000	7,000	2.0	1.4	3.6	2.6	0.5	0.3	0.8	0.6
New York	2.2	4.2	3.1	2.0	9,000	9,000	9,000	10,500	4.1	3.5	4.6	4.4	0.7	0.6	0.7	0.8
Illinois	2.2	5.0	2.9	2.1	11,000	12,000	14,000	13,000	4.8	2.8	4.6	3.7	1.3	0.7	1.2	1.0
Pennsylvania	3.0	6.1	3.9	2.6	8,000	8,000	8,000	9,000	5.3	4.7	6.6	6.2	1.2	1.0	1.3	1.3
Ohio	1.9	4.6	2.0	1.3	9,000	9,000	9,000	9,000	2.4	2.6	3.7	2.7	0.6	0.6	0.9	0.6
Georgia	1.4	4.1	2.2	1.0	9,000	9,000	9,000	10,000	2.1	1.6	2.6	2.3	0.5	0.4	0.6	0.5
North Carolina	2.0	5.3	2.9	0.8	17,000	19,000	20,000	22,000	2.0	1.8	2.3	2.2	0.9	0.8	1.0	1.0
Michigan	3.6	6.8	2.6	1.6	9,000	9,000	10,000	9,000	4.4	4.6	5.5	4.2	1.1	1.1	1.3	1.0
New Jersey	2.8	5.3	3.8	3.0	26,000	29,000	30,000	32,000	1.8	2.0	3.1	2.8	0.8	0.9	1.3	1.2
Virginia	0.9	2.4	1.4	0.9	8,000	8,000	8,000	8,000	2.0	1.2	2.7	2.5	0.4	0.2	0.5	0.5
Washington	2.0	5.0	2.9	1.8	31,000	36,000	38,000	42,000	2.7	1.6	2.1	1.6	1.6	0.9	1.2	0.9
Massachusetts	2.6	4.7	3.1	2.3	14,000	14,000	14,000	15,000	4.0	3.5	4.2	3.4	1.3	1.0	1.2	0.9

Note: the contribution rates reported are annual averages of quarterly data from the Department of Labor.

Table 4 Unemployment Insurance US: trends 2001-2015

Unemployment Insurance Summary for the US from 1999 to 2015															
Region	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Unemployment Rate	4.8	5.8	6.0	5.5	5.2	4.7	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3
Long Term Unemployment Share	11.8	18.3	22.1	21.8	19.6	17.6	17.6	19.8	31.6	43.3	43.8	41.1	37.6	33.5	28.0
Long Term Unemployment Rate	0.6	1.1	1.3	1.2	1.0	0.8	0.8	1.1	2.9	4.2	3.9	3.3	2.8	2.1	1.5
Labor Force Participation Rate	66.8	66.6	66.2	66.0	66.0	66.2	66.0	66.0	65.4	64.7	64.1	63.7	63.2	62.9	62.7
Mean Duration	13.1	16.6	19.2	19.6	18.4	16.8	16.9	17.8	24.3	33.1	39.4	39.4	36.6	33.7	29.1
Insured Unemployment Rate	2.3	2.9	2.8	2.4	2.2	1.9	2.0	2.5	4.4	3.6	3.0	2.6	2.3	2.0	1.7
Recipiency Rate for Regular Programs	44.6	43.8	40.7	36.8	36.9	35.2	36.9	37.5	40.5	30.7	27.3	26.8	26.2	27.2	27.5
Recipiency Rate for All Programs	44.6	43.9	41.0	36.8	36.9	35.2	36.9	43.5	62.4	64.9	55.9	48.6	40.4	27.7	27.4
Wage Base	11,000	10,000	11,000	11,000	11,000	11,000	11,000	12,000	12,000	12,000	12,000	13,000	13,000	13,000	13,000
Contribution Rate on Taxable Wages	1.8	1.8	1.9	2.4	2.7	2.8	2.6	2.4	2.3	2.5	3.1	3.4	3.4	3.2	2.9
Contribution Rate on Total Wages	0.5	0.5	0.6	0.7	0.8	0.8	0.7	0.6	0.6	0.7	0.8	0.9	0.9	0.9	0.8

Annex 2:

ALL SPECIAL EXTENDED BENEFIT PROGRAMS			
NAME	**EFFECTIVE DATES**	**WEEKS PAYABLE**	**FINANCING**
Temporary Unemployment Compensation (TUC) PL 85-441	Reachback to 06/57 06/58 – 06/59	 Up to 13	Interest free loans to 17 participating states
Temporary Extended Unemployment Compensation (TEUC) PL 87-6	Reachback to 06/60 04/61 – 06/62	 Up to 13	FUTA increase: 0.4% in 1962 0.25% in 1963
Temporary Compensation (TC) PL 92-224 PL 92-329	No reachback 01/72 – 09/72 10/72 – 03/73	 Up to 13 Up to 13	 EUCA EUCA – FUTA increase 0.08% in 1973
Federal Supplemental Benefits (FSB) PL 93-572 PL 94-12 PL 94-45 PL 95-19	No reachback 01/75 – 03/75 03/75 – 09/75 10/75 – 12/75 01/76 – 03/77 04/77 – 01/78	EB effective in all states through 12/77 Up to 13 Up to 26 Up to 26 Up to 13 or 26 Up to 13, beginning 05/77	 EUCA EUCA EUCA EUCA General Revenue
Federal Supplemental Compensation (FSC) PL 97-248 PL 97-424 PL 98-21 PL 98-118 PL 98-135 PL 99-15	Reachback to 06/82 09/82 – 12/82 01/83 – 03/83 04/83 – 09/83 09/83 – 10/83 10/83 – 03/85 04/85 – 06/85	 Up to 6, 8, or 10 Up to 8, 10, 12, 14, or 16 Up to 8, 10, 12, or 14 Up to 8, 10, 12, or 14 Up to 8, 10, 12, or 14 Phase-out	 General Revenue General Revenue General Revenue General Revenue
Emergency Unemployment Compensation (EUC) PL 102-164 PL 102-244 PL 102-318 PL 103-6 PL 103-152	Reachback to 02/91 11/91 – 02/92 02/92 – 06/92 06/92 – 09/93 09/93 – 10/93 10/93 – 02/94 02/94 – 04/94	 Up to 13 or 20 Up to 26 or 33 Up to 20 or 26 Up to 10 or 15 Up to 7 or 13 Phase-out	 EUCA EUCA General Revenue General Revenue EUCA

Temporary Extended Unemployment Compensation (TEUC)	Reachback to 03/01		
PL 107-147	03/02 – 12/02	Up to 13 or 26	EUCA
PL 108-1[1]	12/02 – 05/03	Up to 13 or 26	EUCA
PL 108-26	05/03 – 12/03	Up to 13 or 26	EUCA
	01/04 – 03/04	Phase-out	EUCA
Emergency Unemployment Compensation (EUC 08)	Reachback to 05/07		
PL 110-252	07/08 – 03/09	Up to 13	EUCA
PL 110-449	[2]	Up to 20 or 33	EUCA
PL 111-5	03/09 – 12/09	Up to 20 or 33	General
PL 111-92	[2]	Up to 20, 34, 47, or 53	Revenue
PL 111-118	12/09 – 02/10	Up to 20, 34, 47, or 53	General
PL 111-144	02/10 – 04/10	Up to 20, 34, 47, or 53	Revenue
PL 111-157	04/10 – 06/10	Up to 20, 34, 47, or 53	General
PL 111-205	06/10 – 11/10	Up to 20, 34, 47, or 53	Revenue
PL 111-312	11/10 – 01/12	Up to 20, 34, 47, or 53	General
PL 112-78	01/12 – 03/12	Up to 20, 34, 47, or 53	Revenue
PL 112-96	02/12 – 05/12	Up to 20, 34, 47, 53,	General
	05/12 – 09/12	or 63	Revenue
	09/12 – 01/13	Up to 20, 34, 47, or 53	General
PL 112-240	01/13 – 01/14	Up to 14, 28, 37, or 47	Revenue
		Up to 14, 28, 37, or 47	General
			Revenue
Emergency Unemployment Compensation (EUC 08)	Reachback to 05/07		
PL 110-252	07/08 – 03/09	Up to 13	EUCA
PL 110-449	[2]	Up to 20 or 33	EUCA
PL 111-5	03/09 – 12/09	Up to 20 or 33	General
PL 111-92	[2]	Up to 20, 34, 47, or 53	Revenue
PL 111-118	12/09 – 02/10	Up to 20, 34, 47, or 53	General
PL 111-144	02/10 – 04/10	Up to 20, 34, 47, or 53	Revenue
PL 111-157	04/10 – 06/10	Up to 20, 34, 47, or 53	General
PL 111-205	06/10 – 11/10	Up to 20, 34, 47, or 53	Revenue
PL 111-312	11/10 – 01/12	Up to 20, 34, 47, or 53	General
PL 112-78	01/12 – 03/12	Up to 20, 34, 47, or 53	Revenue
PL 112-96	02/12 – 05/12	Up to 20, 34, 47, 53,	General
	05/12 – 09/12	or 63	Revenue
	09/12 – 01/13	Up to 20, 34, 47, or 53	General
PL 112-240	01/13 – 01/14	Up to 14, 28, 37, or 47	Revenue
		Up to 14, 28, 37, or 47	General
			Revenue

FUTA = Federal Unemployment Tax Act **EUCA** = Extended Unemployment Compensation Account

[1] PL 108-11, which provided additional benefits (up to 39 or 52 weeks) to displaced airline and related workers under the TEUC-A program, is not included as it did not change the basic TEUC program.
[2] Expanded the number of weeks payable, but did not change effective dates
Note: Caution should be used when comparing programs.

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