

# STATES WILL FIND THEIR OWN SOLUTIONS

## One-Size-Fits-All Federal UI Expansion Proposals Just Don't Fit

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The old and well-accepted axiom “You can’t be all things to all people” seems an appropriate response to the collection of government assistance proposals advanced in Margaret C. Simms’s “Weathering Job Loss: Unemployment Insurance.”

Arguably, a case can be made for the expansion of the employer-funded federal unemployment insurance (UI) program to address some of the issues advanced in the essay, but these remedies are best left to the states. The fact that states can be responsive to the needs of their residents is evident in their state-administered public assistance programs.

For example, the essay states that in this post-welfare reform era, “the unemployment compensation system has not been updated to fully reflect the reality that most low-income adults with children are committed to the labor force but are likely to have recurrent periods of unemployment through no fault of their own.” However, many states have chosen to take advantage of the authority and flexibility provided by the federally funded Temporary Assistance for Needy Families (TANF) block grant to craft support programs for low-income families, similar to those being discussed in Simms’s essay. For example, under TANF a state may create a separate program for families with children under the age of 18, apart from the “welfare program,” to address those with unique eligibility requirements that Simms proposes to serve. Other federal programs also meet the needs of the unemployed without the necessity of a sweeping national UI initiative.

Efforts are also made to improve the skills of low-wage workers. Workforce Investment Act funds provide training for adults, youth, and dislocated workers that specifically target local employers’ hiring needs; the Food Stamp Employment and Training program provides job search, training, and support services to help food stamp recipients transition from public assistance to self-sufficiency. For those families that depend on grandparents for support, the Senior Community Service Employment Program benefits low-income seniors age 55 and older to refine skills and gain employment.

It is unrealistic to assume that the employer-funded UI system or the U.S. economy could possibly absorb the costs associated with a nationwide, federally imposed blanket implementation of the proposed UI initiatives. On a state-by-state basis, the impact on the system and the economy could be even more drastic. For example, raising the base wage to \$45,000 would increase taxes to Texas employers by more than 600 percent and have a chilling effect on the state's job growth.

Historically, more substantial UI benefits are paid during periods of high unemployment, which may increase exhaustion and duration rates. But we are not in such a position today. In April 2008, the national rate was 5 percent, with nearly a third of all states at unemployment rates of 4 percent or below. In addition, periods of unemployment vary greatly from state to state. The average duration for unemployed workers in the United States is 17 weeks. In Texas, the unemployment spell is closer to 14 weeks; in some other states, closer to 12 weeks.

By design, the UI program provides states the authority to tailor the system to their respective needs. The proposed approach entirely discounts the concept of empowering states to make decisions based on the various nuances of their individual state. What's best for one state could be totally wrong for another state. For example, such factors as education level, demand occupations, employer needs, industry emphasis, and whether a state is union or non-union all clearly demonstrate the need for state-by-state authority.

A forced, across-the-board federal initiative fails to reflect that many states have addressed these very issues through their legislative or rulemaking processes and concluded that some were just not a good fit.

The issues Simms advances are not alien to states. In Texas alone, the legislature considered 51 UI-related bills in the past two sessions, many of which addressed the very topics raised in this paper. Eleven of the 51 were enacted. Some examples of changes that resulted from UI-related bill passages in the 79th and 80th legislative sessions are House Bill 1745, which establishes parameters for individuals who have worked for temporary help firms, classifying them as unemployed three business days following the end of their final assignment; House Bill 2421, which uses an employer assessment to fund the Texas Enterprise Fund and the skills development program and authorizes the Texas Workforce Commission to develop new job incentive programs; and Senate Bill 1342, which establishes eligibility rules for unemployment compensation to spouses of military personnel who become unemployed due to relocations.

In addition to the legislative process, Texas implemented numerous changes to its UI rules and regulations, all of which took into consideration the state's economic situation. This same process is replicated nationwide every year.

For states with strong economies and experiencing low unemployment, expansions of the UI system such as those recommended in the Simms essay are counterproductive to maintaining their hard-earned momentum. Texas, for example, recorded a 4.3 percent unemployment rate in April 2008 and is blessed with a robust economy compared with much of the nation. Last year, Texas actually reduced its UI employer taxes. The state's Unemployment Compensation Trust Fund is returning \$148 million in surplus tax credits to more than 370,000 employers this year. In the same year, the Texas unemployment rate hit record lows of 4.1 percent not seen since the mid-1970s, and Texas employers created 213,000 new jobs. This economic climate largely has been achieved through a job-friendly regulatory environment and ready workforce, spurred by Governor Rick Perry's efforts to attract and support new business to Texas.

Texas is not alone in its economic position. While several states posted high unemployment rates in 2007—Michigan at 7.2 percent, Mississippi at 6.3 percent, and Alaska at 6.2 percent—many more did not, according to the U.S. Department of Labor's Bureau of Labor Statistics. Last year, 40 states and the District of Columbia recorded annual average unemployment rates that did not differ appreciably from those of the previous year. Of those, 21 were significantly below the U.S. rate of 5 percent. Only three states—Florida, Minnesota, and Nevada—reported large rate increases of 0.6 percentage points each. And five states recorded

statistically significant decreases in their annual average unemployment rates. The lowest rates on record were Hawaii at 2.6 percent, followed by Idaho and Utah at 2.7 percent.

Differentiating by state economy is critical. Texas's strong economy puts it in a position to support its own UI system without sweeping and costly federal mandates. Conversely, increased taxes on employers and costly program expansions for states with struggling economies and impending UI trust fund solvency challenges could not come at a worse time.

Notwithstanding the well-intended nature of these proposals, the decisions ultimately should be made state by state instead of implementing the proposed nationwide approach. Such an approach would be costly and counterproductive to states that have maintained a strong economic climate despite national trends and would prove even more costly for states trying to improve their economies.