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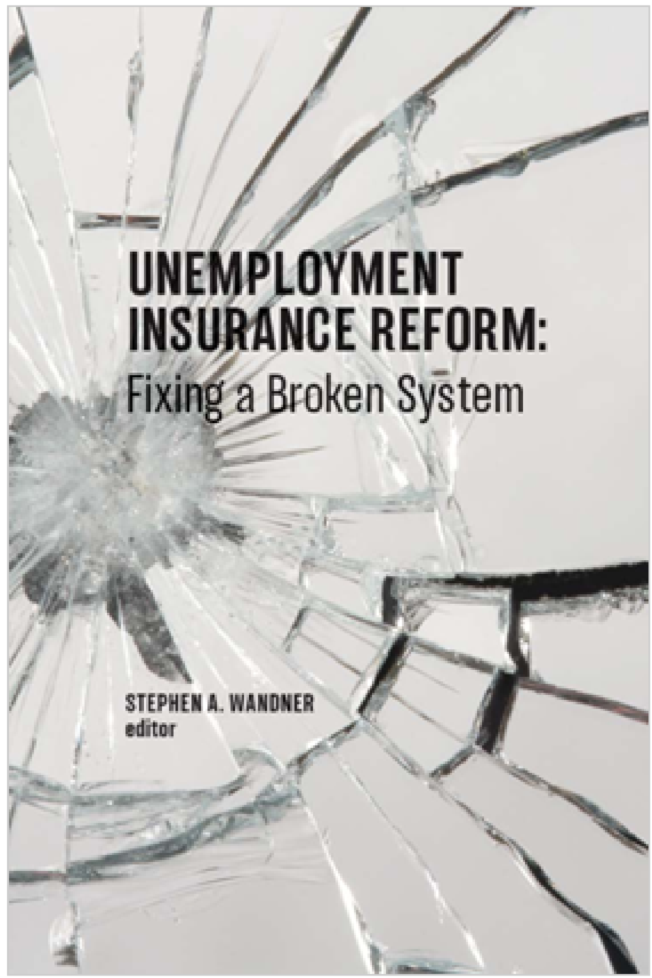
What would a comprehensive reform of the Unemployment Insurance program look like?

Unemployment Insurance Reform: Fixing a Broken System. Edited by Stephen A. Wandner. Kalamazoo, MI: W. E. Upjohn Institute for Employment Research, 2018, 248 pp., $14.24 paperback.



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Enacted into law in 1935, the Social Security Act created the Unemployment Insurance (UI) program, a form of social insurance. During this time, the United States went through the worst economic disaster in its history, the Great Depression. By providing temporary income to eligible recipients, the program had a clear purpose—to alleviate the hardship of those looking for a job and to allow them to take care of their families.

The UI program is a federal–state cooperative; its national institutional framework is set up by the federal government, and its specifications and local day-to-day operations are established and administered by individual states. The regular UI program currently pays benefits for up to 26 weeks, replacing half of a worker's previous wages, up to a state-determined maximum. For the past eight decades, the program has paid temporary income to support American workers who lost their jobs through no fault of their own. While the program was on a firmer financial footing when the economy was at full employment, in recent years it has struggled to replenish its accounts because of the 2008 recession. So how do we ensure that the program is adequately prepared for the next recession? How do we establish adequate mechanisms for wage adjustment? And what are the lessons learned from past proposals for reform?

These are the questions addressed in *Unemployment Insurance Reform: Fixing a Broken System*, a recent book edited by economist Stephen A. Wandner. The book is a collection of academic research from different experts in

the field of labor economics, each proposing his or her own solutions to putting the UI program on a sustainable path. Throughout the book, individual solutions are woven together into common themes that offer the foundations for the next serious review of the program, which, according to the authors, is long overdue.

One of the main problems plaguing the UI program is that of solvency. The program is financed through payroll taxes paid by employers. The problem with this arrangement, explain the authors, is that, because the unemployment rate changes over time, the UI taxes collected do not balance every year—benefit payments are greater in recessionary times than in prosperous times. At the time of the book's publication, the Extended Unemployment Compensation Account of the Unemployment Trust Fund (UTF) owed $7.2 billion to the General Fund of the U.S. Treasury, and $7.5 billion to the Federal Unemployment Account (the federal loan account within the UTF). In 2016, in its budget for fiscal year 2017, the administration of President Barack Obama proposed a set of UI reforms addressing the problem of solvency and other issues. Specifically, the proposal, endorsed by the authors, provided for restoring the 0.2-percent Federal Unemployment Tax Act surtax, which would help the federal accounts in the UTF to pay their outstanding debt. The proposal also included provisions to increase the taxable wage base to $40,000—and to index it to inflation—thus ensuring a more equitable tax-burden sharing among employers. When the taxable wage base is low, employers with a greater number of low-wage or part-time workers pay UI taxes on a larger portion of employee earnings than do employers with a greater number of high-wage or full-time workers.

Another major problem identified in the book is related to the adequacy of UI benefits and eligibility requirements. By October 2016, the number of initial claims for the regular UI program had stayed below 300,000 for more than 85 consecutive weeks. Although this development was partly due to improving economic conditions, it was also caused by states' actions aiming to reduce benefits and to restrict program eligibility. Responding to these cuts and restrictions, the Obama administration proposed to expand access to UI benefits and services. This proposal included a mandatory requirement for states to provide at least 26 weeks of benefits for the regular UI program. The plan also recommended the adoption of three provisions for UI modernization incentive payments under the American Recovery and Reinvestment Act. These included (1) using an alternate base period (instead of a standard base period) to calculate UI eligibility, (2) providing benefits to individuals seeking part-time employment, and (3) granting UI eligibility to people who had left their jobs for family reasons. Further, the plan required an active, continuous work-search monitoring for establishing eligibility, as well as federally funded quality reemployment services for all UI beneficiaries. According to the authors, these solutions can protect U.S. workers during future economic downturns, while ensuring the solvency of the UI program. They would also provide immediate relief to people looking for a job during tough economic times, increase their contributions to family and society, and stabilize the overall economy.

In addressing the problems of solvency and adequacy, the authors also highlight the need for an annual adjustment of tax schedules based on the adequacy of the system's reserves. They argue that state UI tax rates should be sufficient to fund ongoing benefit payments, while also building reserves for future periods of high unemployment. Rate adjustments can be linked to employer layoffs, as well as to wage and price increases. This solution would address a longstanding problem with the UI program, namely, the use of absolute numbers in setting program parameters, which results in UI benefit payments becoming inadequate over time.

Overall, *Unemployment Insurance Reform: Fixing a Broken System* is likely to appeal to all readers interested in the present and future health of the UI program. Combining research and policy perspectives, the book presents interesting views and recommendations on how to fix a broken system, evaluating reform proposals from previous administrations and using quantitative data and graphs from the U.S. Department of Labor and the U.S. Bureau of Labor Statistics. The book's conclusion is clear—only through a timely reform can the UI program continue to function as an adequate source of temporary income and a robust economic stabilizer.