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President Clinton Puts Unemployment Insurance at Risk

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On December 3, 1999, while Congress was in recess and Americans were busy with the holidays, the U.S. Department of Labor (DOL) published proposed new regulations in the *Federal Register* that both redefine what it means to be unemployed and allow states to pay workers who choose to stay home up to one year with their newborn or newly adopted children. The President's plan would put at serious risk the ability of states to pay unemployment benefits to laid-off workers.

Congress should not allow the President to unilaterally convert the Unemployment Insurance (UI) program into a huge new government entitlement program unrelated to unemployment. The current federal–state UI partnership—particularly the system's outmoded method of administration and financing—is already seriously flawed. Substantially changing the purpose of UI and expanding the program to cover family leave will only make these problems worse. The new program would pit employees who voluntarily choose (and in many instances can afford) to be out of work against workers who involuntarily lose their jobs.

Congress should repeal the federal unemployment surtax on workers' wages and transfer the UI system to the states. Senator Mike DeWine (R–OH) and Representative Jim McCrery (R–LA) have introduced the Employment Security Financing Act of 1999 (S. 462 and H.R. 3174), which would repeal the surtax, begin to reform the UI system, and prevent Washington from raiding the program to pay for new spending.

Governors Recognize Threat. North Dakota Governor Ed Schafer, chairman of the Republican Governors Association, has said that UI "is not designed, equipped or adequately funded to pay for absences from work that are related to extended family leave." Michigan Governor John Engler has said that his state "will not put at risk the financial integrity of its unemployment insurance program." Even the Interstate Conference of Employment Security Agencies has expressed concerns with the potential cost of the proposed regulation.

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If all 50 states provide just 12 weeks of benefits to new parents in the labor force, as recommended by DOL, the cost could be $11.3 billion per year—over one-half the amount of regular benefits paid to out-of-work Americans in 1999. State UI benefit payments could balloon from $24.9 billion to $36.2 billion this year and quickly drain the trust funds. By 2002, state trust fund balances could fall

by over 60 percent from $53.7 billion to just $21.4 billion, substantially threatening the ability of states to pay regular UI benefits to laid-off workers during the next economic downturn unless states increase taxes. Moreover, the cost of the program could explode if Washington expands it again to cover other types of leave such as illness and elder care.

Despite DOL's claim that the new program is designed to give states the "flexibility" to experiment with the UI program, the proposed regulation in reality gives them the flexibility to do only one thing: expand UI benefits to new parents. True flexibility would allow the states to conduct many different types of experiments, such as privatizing UI or offering other reemployment incentives that are not allowed under current law.

Higher Taxes, Slower Wage Growth, Fewer Benefits. Without large state tax increases to pay for these new benefits, the payment of regular unemployment benefits to laid-off workers will be jeopardized. A number of states have automatic tax increases built into their UI systems that kick in when their trust fund balances fall below certain levels. In Ohio alone, taxes could increase by $900 million, nearly doubling the existing unemployment tax rate. Moreover, studies indicate that, on average, over 70 percent of the cost of all employer-paid payroll taxes is shifted to workers in the form of lower real wages.

Employees want creative pay and benefit packages, and they often choose their employers based on these packages. Employers know this and have incentives to compete for the best talent by offering innovative benefit packages. There is no need for the government to intervene. Many workers already have paid parental leave programs from their employers that pay more than what they would get from the UI system. However, DOL now proposes to reduce or eliminate the incentive to compete by substituting a new, less attractive government benefits program for all workers.

DOL Discourages Public Comment on Proposal. When DOL proposed this new multibillion-dollar entitlement program, it initially gave the public a 45-day comment period from December 3, 1999, to January 18, 2000. After considerable public outcry from Congress, governors, and businesses, it extended the comment period an additional 15 days to February 2, 2000. The public comment period should be extended an additional 90 days, as requested by the governors, from February 2 to May 2, 2000. This would insure that state UI program administrators, workers, and Congress have adequate time to study and comment on a proposed regulation that would have such a significant financial impact on them.

Conclusion. When both UI and Social Security were created in 1935, policymakers knew there would be political pressure to use the tax revenue for other government programs. That is why they placed limits on the use of those funds. Now DOL is rushing to remove those limits by regulatory fiat. Enough time should be allowed so that such an important change can be considered carefully by Congress, governors, and the public.

With the tax burden on American jobs at a record high, the Clinton Administration has found a source of money to pay for new government programs that threatens the payment of regular UI benefits. Congress should repeal the federal unemployment surtax on workers' wages, transfer the UI system to the states, and restate the historical intent of the UI program: that UI benefits should be paid only to individuals who are involuntarily out of work.

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