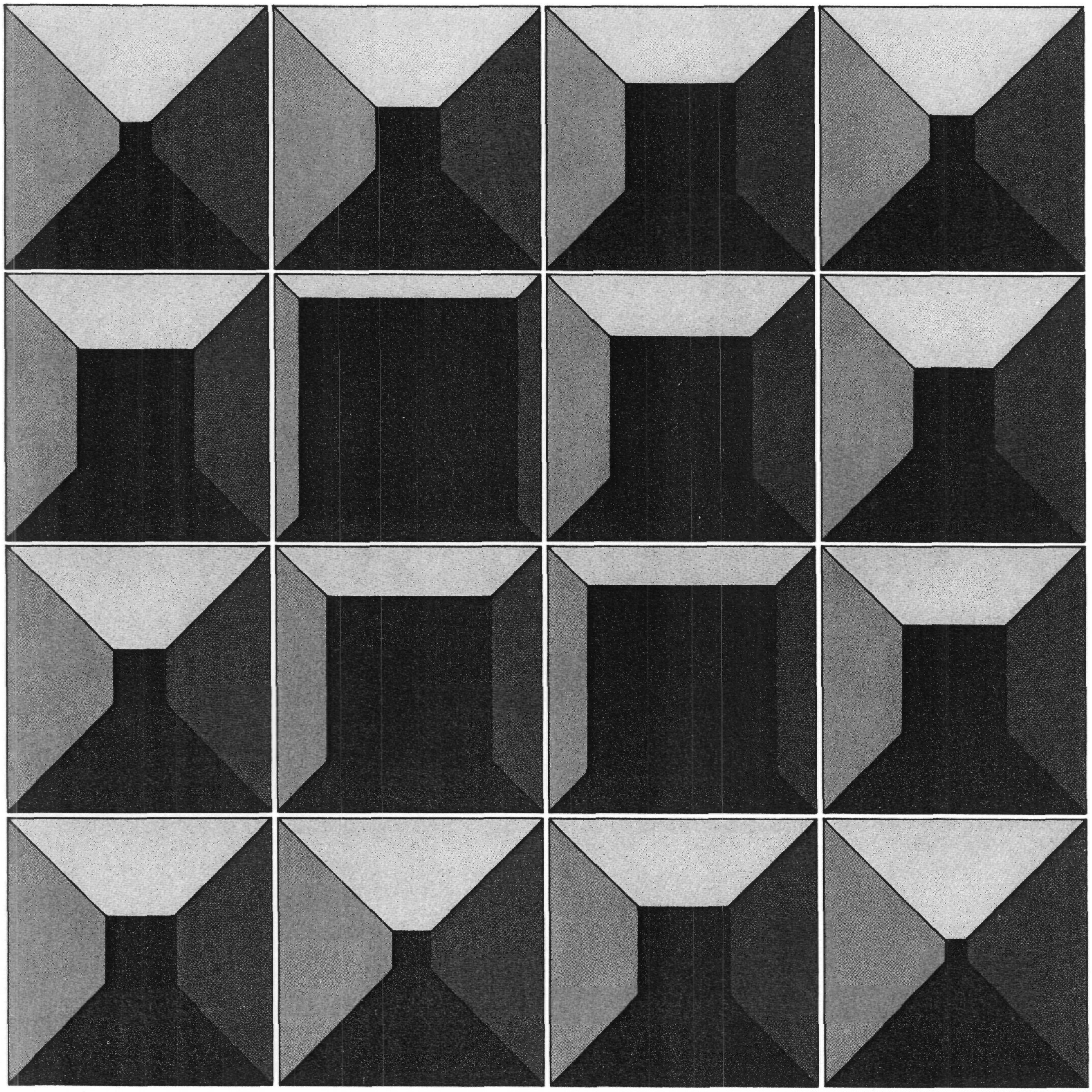
Unemployment Insurance: Financial Condition and Options for Change

A CBO Study
June 1983

Congress of the United States
Congressional Budget Office



UNEMPLOYMENT INSURANCE: FINANCIAL CONDITION AND OPTIONS FOR CHANGE

The Congress of the United States
Congressional Budget Office

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

PREFACE

Recent prolonged high unemployment has strained the ability of the Unemployment Insurance (UI) system to provide benefits. This paper, prepared at the request of the Senate Budget Committee, describes the operation of the present UI system, analyzes its financial history since 1970, and presents outlay and revenue projections through 1988. In addition, it examines options to improve the financial stability of the system and to use UI more aggressively to help unemployed workers find jobs.

This study was written by Bruce Vavrichek of the Congressional Budget Office's Human Resources and Community Development Division, under the direction of Nancy M. Gordon and Martin D. Levine. Many persons provided valuable technical and critical contributions, including Richard A. Hobbie, Richard Hendrix, Joseph Hight, Mike Miller, James Van Erden, and Wayne Vroman. Francis Pierce edited the manuscript. Ronald Moore typed the several drafts and prepared the paper for publication.

In accordance with CBO's mandate to provide objective and impartial analysis, this paper contains no recommendations.

Alice M. Rivlin
Director

June 1983

CONTENTS

TABLES

FIGURES

Page

21-582 O - 83 - 2

SUMMARY

The Unemployment Insurance (UI) system has come under heavy financial pressure in recent years. Annual outlays have frequently surpassed revenues (see Summary Table 1), and over half of the state Unemployment Insurance programs are currently insolvent. Several state UI programs have required large loans from the federal portion of the UI program, which also has needed loans from the general fund. Although no new federal borrowing is expected in the near future--except to provide additional funds for loans to the states--state loans outstanding are projected to continue to rise from $13.7 billion in March 1983 to nearly $19 billion at the end of fiscal year 1985 before beginning to decline.

Cyclical swings are reflected in the design of the UI system, which is intended to run deficits during periods of high unemployment and to offset them with surpluses during times of low unemployment. The recent big shortfalls are largely the result of unusually high unemployment and frequent periods of economic downturn that have not allowed the system to recoup its financial losses (see Summary Figure 1). The state and federal UI programs should all have an annual financial surplus when joblessness drops to about 9 percent. If current economic projections prove to be wrong, however, and the recovery is not sustained, UI financial difficulties could persist and even grow worse.

STRUCTURE OF THE UI SYSTEM

Unemployment Insurance is a joint federal-state responsibility. The federal government provides general guidelines and some restrictions on the operation of the state programs; it also funds benefits to certain unemployed workers and has financial responsibility for administration of the entire system. Within the constraints of federal law, states operate their own programs, establishing eligibility requirements and the duration and amount of weekly compensation. Because of restrictions limiting benefits to experienced workers who are involuntarily unemployed, only about 40 to 50 percent of unemployed workers usually receive regular UI benefits.

At present there are three tiers of benefits. Regular benefits are usually available for up to 26 weeks, financed by state payroll taxes on employers. Extended Benefits (EB) are provided in states with high unemployment rates for up to an additional 13 weeks, funded equally by

SUMMARY TABLE 1. UNEMPLOYMENT INSURANCE OUTLAYS AND REVENUE, 1976-1986 (In billions of dollars)

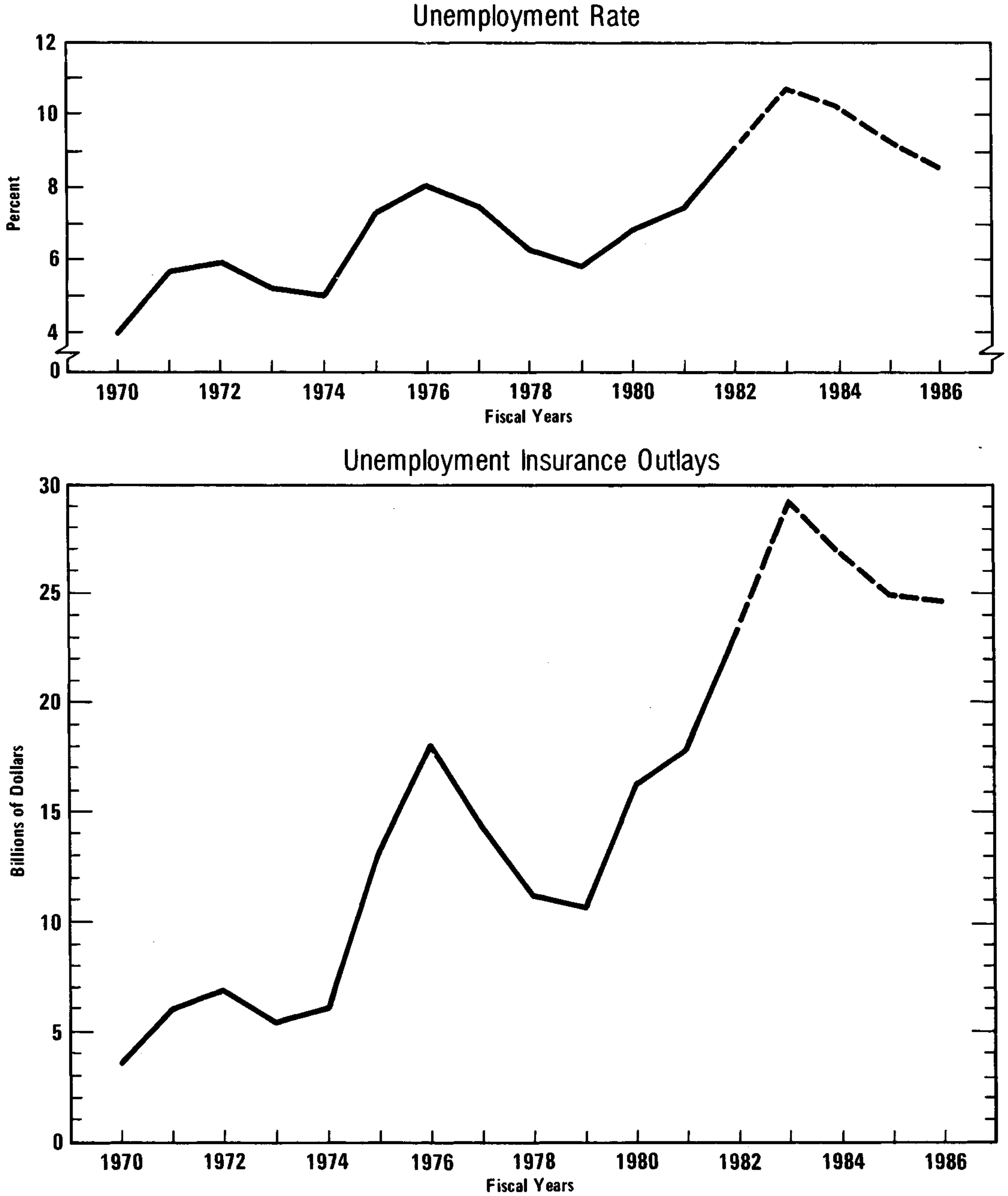
Fiscal Year	State Programs Outlays	State Programs Payroll Tax Revenue	Federal Program Outlays	Federal Program Payroll Tax Revenue	Total Revenue Less Total Outlays a/
			Actual		
1976	11.6	6.4	6.4	1.5	-10.1
1977	9.9	9.3	4.2	1.9	-2.9
1978	8.8	11.0	2.3	2.6	2.5
1979	8.8	12.3	1.8	2.9	4.6
1980	13.6	11.9	2.5	3.2	-1.0
1981	14.6	12.4	3.2	3.3	-2.1
1982	20.2	12.8	3.1	3.2	-7.3
			Projected		
1983	24.8	15.0	4.3	4.5	-9.6
1984	22.4	18.7	4.2	5.2	-2.7
1985	21.6	22.7	3.3	6.0	3.8
1986	21.3	25.5	3.3	7.8	8.7

SOURCE: Actual figures from the U.S. Department of Labor, Unemployment Insurance Service for 1976-1982, and Congressional Budget Office estimates for 1983-1986.

a. Includes both state and federal UI revenues and outlays.

Summary Figure 1.

Unemployment Rate and Unemployment Insurance Outlays



SOURCES: U.S. Department of Labor, Unemployment Insurance Service, for past UI outlays, and Congressional Budget Office for the remaining data.

state and federal payroll taxes. A third tier of benefits, Federal Supplemental Compensation (FSC), runs for up to 14 weeks and is paid out of federal general revenues, but is authorized only through the end of fiscal year 1983. Both state and federal benefits are counted in the unified federal budget because they flow through the federal Unemployment Trust Fund.

OPTIONS FOR FINANCIAL STABILITY AND REEMPLOYMENT AID

Although the UI system is currently in deficit, whether or not it requires legislative change is not clear. The program's recent financial problems stem largely from the very high unemployment levels and frequent recessions that have kept it running deficits. One solution for its financial problems would be for the federal government to follow broader policies that would reduce unemployment and increase economic growth. In any case, if the system is to continue to be funded from payroll tax revenues, the inflows must correspond over time to the outflows.

Another concern is that the UI program provides a disincentive to work because it reduces the cost of being unemployed. This effect means that unemployment is somewhat higher than would occur in the absence of the program. On the other hand, reducing benefits at the present time might be ill-advised, since the lack of job opportunities makes it unlikely that large numbers of unemployed could react to benefit cuts by finding jobs.

In response to these concerns, various proposals have been made to reduce Unemployment Insurance shortfalls and expand the role of UI in helping recipients find jobs (see Summary Table 2). Most of them would change federal UI laws to improve the financial situation of state programs, either by supplementing their revenues or by reducing their outlays. Other options would expand the UI program beyond its current income-support role to help workers find jobs.

Modifications Affecting UI Revenues

Some proposals would increase revenues or change the relationship between the Unemployment Trust Fund and the federal general fund.

Index the UI Taxable Wage Base. UI benefits have risen over time largely because of increases in nominal wages. Linking changes in the federal taxable wage base to changes in wages would tie federal UI revenues more closely to benefits. Because the federal wage base is also the minimum base used for state UI taxes, the tax base in most state programs would also increase, raising state revenues as well. The tax base for Social Security is currently tied to wage changes in this manner. Indexation beginning in 1984 would add $800 million to UI revenues in that year. On the other hand, increasing the UI tax at the present stage of economic recovery could have adverse effects on employment gains.

Return Income Tax Revenue to the UI System. UI benefits paid to moderate- and high-income recipients have been subject to the federal income tax since 1979. Returning to the Trust Fund that portion of the federal tax paid on UI benefits--as was recently enacted for Social Security--would bolster UI revenues, especially during times of economic downturn when benefit payments are large. This revenue could then be returned to state UI programs, where most of it originated as benefits. The Treasury Department estimates that this change would increase UI revenues by $1.7 billion in fiscal year 1984. On the other hand, earmarking part of the federal income tax would reduce flexibility in the use of general revenues, especially if this was done for several programs.

Finance Extensions of Benefits from Federal General Revenues. Either the state share of Extended Benefits, or both the state and federal shares of EB, could be financed with federal general funds when the national unemployment rate exceeded a certain level--8 percent, for example. One reason for this approach is that economywide high unemployment is primarily a national problem, which is affected by national economic policies and priorities. If both the state and federal shares of EB were financed from general revenues, the cost to the federal treasury would be about $1.7 billion in fiscal year 1984. If only the state share of EB outlays was financed in this manner, the cost would be about half that amount. Such general-revenue funding would be a departure from the self-financing principle of the UI program, however, and could eventually add to already high budget deficits, since states would not need to raise payroll taxes to pay for these benefits.

Forgive Certain Outstanding General-Revenue Loans. During the recession of the mid-1970s, the federal UI program borrowed heavily from the general fund to finance benefit extensions. This borrowing included a $5.8 billion loan for the payment of Federal Supplemental Benefits--a program similar to the present FSC program, which is funded from federal general revenues. If this $5.8 billion general-revenue loan was forgiven, the federal tax on all employers could soon be reduced by one-quarter, or 0.2 percentage points--the amount of the penalty tax imposed to repay the federal UI debt. Alternatively, the penalty tax could be maintained only in states with outstanding UI loans, and these funds used to repay state borrowing. If the loan was forgiven and the penalty tax removed, federal revenues would fall by about $600 million in fiscal year 1985--the first year

SUMMARY TABLE 2. COMPARISON OF SELECTED OPTIONS FOR UNEMPLOYMENT INSURANCE

Option	Direct Effects in Fiscal Year 1984 on: UI Benefits or Tax Revenue	UI Trust Fund Balance	Federal Budget Deficit	Employment Opportunities
	Revenue Changes			
Index Federal Taxable Wage Base	Revenue increase of $800 million	Increase of $800 million	Reduction of $800 million	Slight reduction due to higher labor costs
Return Income Tax Revenue to UI System	None	Increase of $1.7 billion	None a/	None
Finance Benefit Extensions from General Revenue	None	Increase of $1.7 billion if all of EB paid	None a/	None
Forgive Certain General-Revenue Loans	Revenue reduction of $600 million (in FY85) if penalty tax is removed	Reduction of Trust Fund loan by $5.8 billion; possible reduction of balance by $600 million (in FY85)	Increase of $600 million (in FY85) if penalty tax is removed a/	Slight increase due to lower labor costs
	Benefit Changes			
Establish Two-Week Waiting Period	Reduction in benefits of $1.1 billion	Increase of $1.1 billion	Reduction of $1.1 billion	None

(Continued)

21-582 0 - 83 - 3

Limit Weekly Benefit to 50 Percent of Average Wage in State	Reduction in benefits of over $1.2 billion	Increase of over $1.2 billion	Reduction of over $1.2 billion	None
Provide Variable Maximum Duration for EB Benefits	Reduction of EB benefits by up to $500 million	Increase of up to $500 million	Reduction of up to $500 million	None

Changes to Promote Employment

Use UI as an Employment Voucher	Possible increase in benefits, depending on plan	Reduction from increased administrative costs and possibly from higher benefits	Some increase, partially offset by increased income tax revenue	Increase by offering subsidies to employers
Use UI for Relocation or Retraining	Increase in benefits of $165 million	Reduction of $165 million	Increase of $165 million, partially offset by increased income tax revenue	Increase by helping to relocate workers or improve skills
Promote UI Work-Sharing Programs	None	Some reduction due to higher administrative costs	Small increase	Reduce chance of complete loss of jobs

a. Future deficits could be increased, however, because the option would either reduce future sources of revenue or would increase future outlays.

this change would likely be in effect. If the portion of the penalty tax collected in debtor states was used to repay state loans, about $350 million in outstanding loans could be repaid in that year, and federal revenues would fall only about $250 million.

Changes in Benefits

In the past, the federal government has not maintained close control over UI benefit provisions, since most benefits are paid under state programs and since benefit levels in federal programs equal state benefits. The federal government has, however, limited the availability of federal-state Extended Benefits. Restricting the availability of regular benefits or further limiting extended benefits could reduce UI outlays and help improve the financial condition of the system.

Require a Two-Week Waiting Period Before Regular Benefits Are Available. About three-quarters of the states now require beneficiaries to wait one week before beginning to collect regular benefits; the remaining states have no waiting-period requirement. If all state programs required a two-week waiting period, total benefits would be reduced for persons whose unemployment lasted less than the maximum compensable period, while they would not be changed for jobless persons who use all of their eligibility. Outlays for regular UI would be reduced by about $1.1 billion in fiscal year 1984.

Limit Wage Replacement to 50 Percent. The maximum weekly benefit a jobless person can receive differs significantly among the states. Thirty-six states have flexible maximum benefits--which vary over time with the average weekly wage in the state--ranging from 50 percent to 70 percent of average wages. Limiting the maximum weekly benefit to 50 percent of a state's average weekly wage would increase the uniformity of state programs, but would reduce benefits for some unemployed persons in 30 of 36 states with flexible maximum benefits, plus certain persons in the remaining states where the pre-set maximum benefit would otherwise be higher. Regular UI benefits would be reduced by this change by over $1.2 billion in fiscal year 1984.

Further Restrict Extended Benefits. Given the reductions in Extended Benefits that have already been made, and the relatively small size of that program compared to the regular one, major savings cannot be easily obtained in EB. Nonetheless, certain modifications could be made to target spending on areas of highest unemployment and to reduce benefits somewhat. The maximum duration of EB could range from 8 to 13 weeks, for example, depending on the state unemployment rate--instead of the current provisions under which EB is either not available or available for up to 13 weeks. This change could reduce benefits for some long-term jobless persons, however. The savings would depend on the levels of unemployment that would trigger the various EB durations; the particular trigger rates described in the text would save roughly $500 million in 1984, for example.

Changes Affecting Employment Opportunities

Other modifications in the UI system could allow funds to be used in a more aggressive promotion of reemployment. This approach might be targeted on the long-term jobless--those collecting regular UI for more than four months, for example, or EB recipients, most of whom have been without work for six months or more. The federal government could also promote the use of so-called shared-work programs that would distribute employment reductions among a larger share of the work force.

Use UI Funds as a Wage Subsidy for Employers. One option to spur reemployment would be to allow long-term UI recipients the option to transfer part of their benefit entitlement to a voucher payable to new employers. The amount of the voucher could be set in different ways--it could be a fixed amount per worker, for example, or it could equal the worker's remaining UI entitlement. The cost of this option would depend on the specific features of the subsidy, but could be made to add little to total program costs because continued UI benefits would likely be paid to many of these recipients if the vouchers were not available. In addition, the federal government would recoup some of the subsidy in the form of increased income taxes if the vouchers led to a net decline in unemployment. Given past experience with targeted employment programs, however, it is not clear this program would create many new jobs. Employers might receive the subsidy for hiring workers they would have hired without the voucher, or subsidized hiring might merely cause joblessness for some other workers.

Use UI Funds to Facilitate Relocation or Retraining. Another option would be to allow long-term UI recipients to receive their remaining benefits in a single payment to be used either for relocation to an area with lower unemployment, or for retraining. While UI benefits can now be transferred from one state to another if a recipient moves, after several weeks of joblessness an unemployed worker may lack the funds necessary to relocate. Alternatively, the lump-sum payment could be used to pay for training that would improve the worker's chances of being reemployed. As with the voucher program, the cost of this option would depend on the amount of the cash payments: if, for example, EB recipients were allowed to receive their full benefit in advance for relocation or retraining, program costs could increase about $165 million in 1984.

Promote Work-Sharing Programs. A different approach would be for the federal government to facilitate the use of work-sharing programs, such as those developed in Arizona, California, and Oregon. These plans allow certain employers to reduce staff hours across the board rather than laying off some people entirely, and then permit employees to receive pro-rated UI benefits for their lost hours of work. In order to expand these plans beyond the present small number of states, UI laws in other states that prohibit persons who work more than some minimum amount from receiving benefits would have to be changed, and additional program rules developed. The Congress has already directed the Department of Labor to formulate model legislation for state work-sharing programs, and additional aid could be provided to help states implement and finance such programs.

CHAPTER I. INTRODUCTION

The federal-state Unemployment Insurance (UI) system, which provides income support to persons who have lost their jobs, is designed to have cyclical swings in outlays and revenues. In recent years, however, it has been unable to recoup financial losses suffered during periods of high joblessness, because the periods of economic downturn have been relatively more frequent--limiting the time the system has to recover from financial drains--and because the unemployment rate has trended upward considerably over the last decade. In addition, numerous program changes in past years have both helped and hindered the status of the UI fund. These difficulties have prompted concern in the Congress and elsewhere about the ability of the system to provide adequate aid to jobless Americans.

THE ROLE OF UNEMPLOYMENT INSURANCE

Unemployment Insurance provides weekly cash benefits to workers who are involuntarily unemployed and who have had at least a moderate amount of work experience during a one-year period prior to losing their jobs. Of the four types of jobless workers identified in labor-market surveys--persons who lost their jobs, those who voluntarily left their jobs, and new entrants and reentrants to the labor market--only job losers usually qualify for UI. Consequently, only about 40 to 50 percent of jobless persons usually receive UI benefits, although this fraction fluctuates with cyclical changes in the composition of the unemployed population and temporary benefit extensions. UI is usually available for up to 26 weeks; however, recent high rates of unemployment have prompted increases in the duration of this aid--up to 65 weeks in some states.

Unemployment Insurance has several functions. 1/ First, the availability of UI benefits provides jobless workers the financial resources to search for new jobs. This can lead to increased job stability because of better matches between jobs and workers, and also can lead to higher worker

---

1. See, for example, Martin N. Baily, "Unemployment Insurance as Insurance for Workers," Industrial and Labor Relations Review (30:4, July 1977), pp. 495-504; and Raymond Munts and Irwin Garfinkel, The Work Disincentive Effects of Unemployment Insurance (Kalamazoo, Michigan: Upjohn Institute for Employment Research, 1974).

productivity. In the longer run, these factors can, in turn, reduce the rate of unemployment somewhat.

Second, by providing cash to jobless workers, UI helps to stabilize the overall level of economic activity. Program outlays increase with increases in unemployment, thereby potentially offsetting reductions in consumer spending that otherwise would occur. Outlays decrease as the economy recovers and unemployment falls, thereby reducing the inflation risk associated with renewed economic activity.

Finally, the payroll tax which finances most UI benefits serves as a type of premium for benefits. Workers pay part of the tax by taking somewhat reduced wages in exchange for insuring part of their income if they lose their jobs. Employers pay somewhat higher labor costs for the option of laying off workers when demand is slack and being able to reemploy those same workers when conditions improve--thereby reducing their costs for recruiting, rehiring, and retraining new employees.

Although in these respects the UI program can work to reduce joblessness, other features of UI add to the frequency and duration of unemployment. By reducing the cost of being unemployed, UI can make workers less concerned about losing their jobs and can reduce their incentive to find work once they are unemployed. Overall, the availability of UI benefits has been estimated to increase the rate of joblessness in the economy by between one-half and one percentage point. 2/

PLAN OF THE PAPER

This report analyzes the financial condition of the UI system and considers options for helping its financial situation and for using the system to promote employment of jobless workers. 3/ Chapter II describes the operation of the present UI system. Chapter III details its financial difficulties since 1970, and presents outlay and revenue projections to 1988. Chapter IV considers several options to increase revenues and reduce program outlays, and also discusses ways in which UI might better meet the needs of jobless workers.

---

2. See, for example, Kim B. Clark and Lawrence H. Summers, "Unemployment Insurance and Labor Market Transitions," in Martin N. Baily, ed., Workers, Jobs, and Inflation (The Brookings Institution, 1982), pp. 279-323.

3. This study does not, in general, consider issues concerning the adequacy of current UI benefits.

CHAPTER II. THE CURRENT PROGRAM

The Unemployment Insurance system provides temporary and partial wage replacement to involuntarily unemployed persons. 1/ Compensation is currently available under three programs, including two permanent programs for regular and extended benefits and temporary Federal Supplemental Compensation. Benefits from the permanent programs are financed by payroll taxes on employers, while the federal supplemental program is funded by federal general revenues.

The provision of Unemployment Insurance is shared between the federal and state levels of government. Federal law determines the overall structure of the UI system, while state laws primarily establish eligibility requirements and the duration and amount of weekly unemployment compensation. 2/ All 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands operate unemployment insurance programs under federal guidelines. 3/

Unemployment compensation is financed by both federal and state payroll taxes on employers. 4/ Since the tax base per worker is generally quite small, a main determinant of revenue is the number of workers on an employer's payroll. State tax rates also generally vary according to the use of UI benefits made by an employer's former workers. The federal government ensures compliance of state programs with federal UI rules by

---

1. The Unemployment Insurance system was created by the Social Security Act of 1935 (P.L. 74-271). Title III of the act directs administration of UI; Title IX deals with taxation, coverage, and other provisions; and Title XII provides for temporary loans to states to pay benefits. The Federal Unemployment Tax Act of 1939 (P.L. 76-379) details the federal payroll tax.

2. The federal government also operates special national programs for former military, federal civilian, and railroad workers. These programs are organized differently from the main UI programs, however, and are not included in this report.

3. In this study, the term "state" refers to any of these 53 jurisdictions.

4. Three states--Alabama, Alaska, and New Jersey--sometimes require employee contributions to their state UI programs.

granting reductions in the federal tax to employers in states with approved UI programs. 5/ In 1982, state tax receipts totaled $12.8 billion and federal tax receipts totaled $3.2 billion, as compared to state and federal outlays of $23.3 billion.

The operation of state UI programs affects the federal budget for two reasons. First, both state and federal tax receipts are deposited in the federal Unemployment Trust Fund in the U.S. Treasury, and benefits are paid from this fund. These taxes and benefits are included in federal receipts and outlays in the unified federal budget. Second, state laws affect the costs of federal benefits because of linkages between state and federal UI programs.

This chapter analyzes the benefit and financing provisions of the UI system. The first section examines eligibility conditions and benefit levels under the three tiers of Unemployment Insurance. The second section analyzes state and federal tax provisions and discusses the organization of the Unemployment Trust Fund.

COVERAGE, ELIGIBILITY, AND BENEFITS

Jobless workers may be eligible for unemployment compensation if their former employers were covered under state UI laws and if they search for, and are available for, work once they become unemployed. For those who are eligible, benefits are available under three UI programs, which provide compensation for successively later periods of joblessness.

---

5. All states comply with the federal requirements. Major rules are that: all state payroll tax revenues must be deposited in the Unemployment Trust Fund; all money withdrawn from these Trust Fund accounts must be used to pay benefits, except under certain limited conditions; compensation must not be denied to persons who refuse to accept work if the job is vacant due to a labor dispute, or if, as a condition of being employed, the individual would be required to join--or not to join--a union, or if the conditions of work are substantially less favorable than those in similar work in the locality; reduced state UI tax rates on employers must be permitted only on the basis of the employers' past experience with UI benefits; and nonprofit organizations and governmental entities must be permitted to finance benefit costs by reimbursing the Trust Fund, instead of paying taxes.

   In addition, to ensure that employers receive the maximum federal tax credit, state UI programs must have tax bases at least as large as the federal one.

Coverage

Nearly 97 percent of wage and salary workers, and about 88 percent of all employed persons, currently work in jobs covered under state UI laws. Employers generally are covered under UI laws if they are required to pay UI payroll taxes. Coverage under state programs is at least as broad as under the federal system, because workers whose employers are not covered under state laws are not eligible for state or federal benefits. Also, the federal government effectively requires states to cover certain nonprofit employment and state and local government workers. Work not covered by the UI system includes self employment, certain agricultural labor and domestic service, and service for relatives.

Eligibility Conditions

Although the Unemployment Insurance system covers the vast majority of workers, usually less than half of the persons unemployed at any time receive UI benefits because of restrictions on eligibility. To be eligible for unemployment benefits, jobless workers must have formerly worked for covered employers, be able to work, be seeking work, and be free from disqualification for such acts as quitting without good cause or discharge for misconduct. Recipients also must not refuse an offer of "suitable work," with the definition of that work differing considerably among states.

Under all state UI laws, workers' eligibility for benefits depends on their experience in covered employment in a past one-year period, called a base period. To qualify for benefits, a claimant must have earned a specified amount of wages, have worked a certain number of weeks in covered employment within the base period, or meet some combination of wage and employment requirements. These qualifying provisions are intended to measure the worker's prior attachment to the work force.

In terms of the base year's earnings alone, the amount required to obtain the minimum benefit ranges among states from $150 in Hawaii to $2,200 in Virginia (see Table 1); the amount required to obtain the largest benefit ranges from $3,360 in Puerto Rico to $20,750 in West Virginia. The amount of work required for the minimum UI benefit ranges from 14 weeks in Hawaii to 20 weeks in several states; in addition, most states require that employment be spread over at least two quarters of the base period. Most states require that a claimant serve a one-week waiting period before compensation is available.

State laws must conform to certain federal restrictions regarding the availability of benefits. Benefits cannot be denied to persons because they do not accept work if the job offered is vacant due to a strike or other labor

21-582 O - 83 - 4

TABLE 1. SELECTED BENEFIT AND ELIGIBILITY INFORMATION FOR REGULAR STATE UNEMPLOYMENT INSURANCE PROGRAMS, BY STATE, JANUARY 1983 (In dollars and weeks of benefits)

State	Weekly Benefit Amount a/			Potential Duration of Benefits		Earnings Required for Min/Max Benefit c/	
	Min.	Max.	Avg. b/	Min.	Max.	Min.	Max.
Alabama	15	90	81	11	26	522	7,020
Alaska	34	228	132	16	26	1,000	16,000
Arizona	40	115	105	12	26	1,500	8,969
Arkansas	31	136	97	10	26	930	10,605
California	30	166	101	12	26	1,200	8,630
Colorado	25	190	148	7	26	1,000	19,656
Connecticut	15	206	119	26	26	600	6,240
Delaware	20	150	98	18	26	720	15,496
District of Columbia	13	206	145	17	34	450	14,006
Florida	10	125	97	10	26	400	12,897
Georgia	27	115	98	4	26	413	11,956
Hawaii	5	178	129	26	26	150	5,340
Idaho	36	159	118	10	26	1,138	13,351
Illinois	51	224	151	26	26	1,600	4,789
Indiana	40	141	96	9	26	1,500	8,736
Iowa	17	190	141	15	26	600	12,324
Kansas	40	163	133	10	26	1,200	12,711
Kentucky	22	140	116	15	26	1,500	11,772
Louisiana	10	205	153	12	28	300	14,348
Maine	22	186	105	7	26	1,427	9,671
Maryland	25	153	120	26	26	900	5,508
Massachusetts	14	258	121	9	30	1,200	14,331
Michigan	41	197	158	13	26	2,010	15,085
Minnesota	30	191	141	11	26	1,724	14,171

(Continued)

Mississippi	30	105	86	13	26	1,200	8,187
Missouri	14	105	94	10	26	450	8,190
Montana	39	158	133	8	26	1,000	13,309
Nebraska	12	106	97	17	26	600	8,189
Nevada	16	149	119	11	26	563	11,619
New Hampshire	26	132	99	26	26	1,700	16,500
New Jersey	20	158	121	15	26	600	8,243
New Mexico	29	142	109	19	26	921	6,153
New York	25	125	100	26	26	800	4,980
North Carolina	15	166	108	13	26	1,368	12,948
North Dakota	47	175	134	12	26	1,880	13,391
Ohio	10	250	148	20	26	400	8,164
Oklahoma	16	197	145	20	26	1,000	15,363
Oregon	44	175	121	8	26	1,000	13,960
Pennsylvania	35	213	153	26	30	1,320	8,120
Puerto Rico	7	84	63	20	20	280	3,360
Rhode Island	37	174	112	12	26	1,340	11,684
South Carolina	21	118	95	14	26	900	9,201
South Dakota	28	129	108	18	26	1,568	10,059
Tennessee	20	110	90	13	26	800	8,577
Texas	27	168	132	14	26	1,013	16,174
Utah	10	166	133	10	26	1,200	12,012
Vermont	18	146	111	26	26	700	5,820
Virginia	44	138	113	12	26	2,200	13,800
Virgin Islands	15	124	94	26	26	396	3,720
Washington	49	178	136	16	30	1,237	16,019
West Virginia	18	211	142	28	28	1,150	20,750
Wisconsin	37	196	140	1	34	1,080	16,770
Wyoming	24	180	142	12	26	960	15,000

SOURCE: U.S. Department of Labor, Unemployment Insurance Service, Comparison of State Unemployment Insurance Laws (January 1983) and unpublished data.

a. For total unemployment; includes dependents' allowances.
b. October 1982 through December 1982.
c. Base-period earnings required.

dispute; benefits also cannot be denied if, as a condition of being employed, the individual would have been required to join--or not to join--a union. In addition, workers are not required to accept jobs if the wages or conditions of the work are substantially less favorable than those prevailing for similar work in the same locality. Finally, benefits cannot be denied because a worker is in an approved training program.

On the other hand, federal rules prohibit the payment of benefits in certain circumstances. For example, benefits must be denied to teachers during the summer so long as they have reasonable assurance of reemployment, and to aliens not legally admitted to work in the United States.

Benefits

UI benefits are limited primarily to providing cash assistance. Although UI recipients also may use the information and placement-assistance services of the Employment Service, this aid is available to other jobless persons as well. 6/

States have primary control over benefits in both state and federal UI programs because the same weekly benefit provided under regular state UI is also provided for Extended Benefits (EB) and Federal Supplemental Compensation (FSC). The potential duration of EB also is based on regular UI eligibility, while the potential duration of FSC depends on both state and federal law.

Regular State Benefits. The weekly benefit paid to eligible persons varies widely both within states and among them, depending on prior employment and wages, and on state laws. The smallest minimum benefit available to an eligible person is $5 per week in Hawaii, and the largest maximum benefit is $258 per week in Massachusetts. Average weekly benefits range from a low of $63 in Puerto Rico to a high of $158 in Michigan.

The number of weeks benefits are available under the regular UI program also depends on the beneficiary's prior work experience and on

---

6. The Employment Service is primarily a labor exchange, attempting to match the skills and interests of job applicants with the openings listed with the Service by employers. Assistance to employers includes job analysis, studies of turnover and absenteeism, and assistance in job restructuring, along with help in filling their job openings. The primary service provided to jobseekers is referral to listed job openings. Employment Service agencies must serve, without charge, all job applicants regardless of skill or aptitude.

state laws. The shortest minimum benefit period is 1 week in Wisconsin and the longest maximum is 34 weeks in the District of Columbia and Wisconsin, although most states have a maximum of 26 weeks of benefits. Ten states provide the same duration of benefits to all qualified workers. The maximum regular benefit (maximum weekly amount for the maximum duration) ranges from a low of $1,680 in Puerto Rico to a high of $7,740 in Massachusetts.

In fiscal year 1984, an estimated 10.9 million persons will receive regular UI benefits for an average of 16 weeks. The average weekly benefit in that year will be about $125. Compared to jobless persons who do not receive benefits, UI recipients on average tend to be older (36 years of age compared to 30), tend to work more of the year of their unemployment (35 weeks compared to 24 weeks), and are more likely to be men (62 percent compared to 52 percent). In addition, relatively more UI recipients formerly worked in manufacturing and construction industries than jobless workers who do not receive UI, and relatively fewer worked in retail trade and service industries. 7/

Federal-State Extended Benefits. The maximum potential duration of benefits within a state is extended by the Federal-State Extended Unemployment Compensation Act of 1970 (P.L. 91-373) whenever the state's unemployment rate exceeds certain thresholds. This Extended Benefit program continues UI payments for up to 50 percent of a worker's regular benefit duration, for a combined maximum duration of 39 weeks in most states. To qualify for extended benefits, jobless persons must have exhausted their regular benefits and, in addition, must have worked the equivalent of 20 or more weeks in the base period that determines eligibility for regular UI. The federal and state governments each pay for half of these added benefits.

Extended benefits are available, or "trigger on," in a state when the insured unemployment rate (IUR)--the percent of workers covered by the state UI program that receive regular unemployment benefits--exceeds certain levels. In particular, they are payable when the state IUR is at least 5 percent and, in addition, is 20 percent higher than during the same period in the prior two years. At state option, extended benefits are also available in a state when the IUR is at least 6 percent, without the 20 percent factor. 8/

---

7. CBO tabulations based on the March 1982 Current Population Survey.

8. See Appendix A for a description of recent legislative changes in UI, including those in the EB program.

During fiscal year 1984, an estimated 1.3 million long-term jobless persons in 30 states will receive EB. Weekly extended benefits will be about $123 and will last for an average of 11 weeks.

Federal Supplemental Compensation. The federal government is the sole provider of a temporary third level of unemployment benefits, called Federal Supplemental Compensation. Unlike regular and extended benefits that are permanently authorized by federal law, various supplemental programs of this type have been enacted for limited periods by special legislation, generally during periods of exceptionally high unemployment. 9/

The current federal supplemental program authorizes benefits during the period September 12, 1982, through September 30, 1983. These benefits are financed from the federal general fund, and are available for a maximum of between 8 and 14 weeks, depending on the insured unemployment rate in the state; persons exhausting their supplemental benefits on or before April 1, 1983, were also eligible for up to 10 additional weeks beyond the 8-16 weeks that were then available. 10/ FSC benefits are payable after a jobless worker has exhausted regular--and, if available, extended--UI benefits, with the potential maximum duration of benefits under all three programs being 65 weeks.

In fiscal year 1983, an estimated 4 million persons will receive FSC benefits averaging about $120 per week. The average length of time the benefits are received will vary considerably among the states because of federal rules linking maximum benefits to state jobless rates.

---

9. Prior federal supplemental programs--sometimes called emergency unemployment compensation--were in effect in 1972-1973 and 1975-1978. Supplemental benefits paid before 1977 were financed out of federal Trust Fund balances; the Emergency Unemployment Compensation Extension Act of 1977 (P.L. 95-19), however, provided for general-revenue financing of those benefits for the period April 1977 through January 1978. One additional federal program, Special Unemployment Assistance, temporarily provided benefits to certain workers not covered by UI in 1975-1978.

10. The FSC program currently provides the following maximum weeks of benefits: 14 weeks in states with IURs of 6 percent and above; 12 weeks in states with IURs between 5 and 6 percent; 10 weeks in states with IURs between 4 and 5 percent; and 8 weeks in all other states. See Appendix A for a description of the recent history of FSC.

FINANCING

Unemployment Insurance benefits and administrative costs are funded primarily by state and federal payroll taxes on employers. The federal tax is reduced in all states because they have federally approved UI programs, with the result that state tax revenues significantly exceed federal revenues. In 1983, for example, state tax payments will be about $15 billion, compared to an estimated $4.5 billion for the federal tax.

This section first examines the state and federal UI tax systems and then describes the structure of the Unemployment Trust Fund in the U.S. Treasury.

State and Federal UI Taxes

State and federal UI taxes are used for different purposes. State tax revenues are used for compensation paid under the regular UI program and for the state share of EB costs. Federal tax revenues pay for the other half of EB costs, the administration of both federal and state UI programs, and temporary loans to states to cover their benefit costs.

The major difference between the state and federal UI tax structures is their dissimilar treatment of employers whose former workers received UI benefits. All states except Puerto Rico and the Virgin Islands use "experience rated" tax assessments to determine employer liabilities. Under these systems, employers whose employees have made greater use of UI benefits in the past pay higher payroll tax rates. The federal tax on employers, on the other hand, does not depend on the amount of unemployment compensation received by an employer's former workers.

State UI Taxes. The methods and levels of taxation vary considerably among the states. Most states have more than one tax rate schedule, depending on the solvency of the state's UI program, and federal law requires that state tax rates cannot be reduced below a certain level--usually 2.7 percent--except on the basis of the employer's experience rating.

Each state uses a different experience-rating technique to determine employer tax rates. The most popular type is the "reserve ratio" method. According to this procedure, an employer's tax rate is determined by the ratio of UI taxes paid in the past, less UI benefits paid to former workers, to the employer's average annual taxable payroll during a recent period. The higher this ratio, the lower, in general, is the employer's state UI tax rate. For example, the employer's tax rate is generally lower the more it has paid in taxes and the less the benefits that have been paid to former workers. With many variations, this system is currently used in 32 states. Various other techniques are used to determine an employer's tax liability in the remaining states that use experience-rating systems, but they too generally incorporate some combination of the employer's past tax payments, benefits used, and the size of the payroll.

State tax bases and rates also vary considerably (see Table 2). State tax bases per worker are at least as large as the federal tax base--$7,000 in 1983--and are often larger, ranging up to $20,200 in Alaska, and covering all wages in Puerto Rico. Tax rates vary both because of experience rating and because different tax-rate schedules are used. The average tax rates actually paid in 1982 ranged from 0.6 percent of taxable payroll in Texas to 4.8 percent in West Virginia; as a fraction of total earnings, the average tax rates ranged from 0.3 percent in Texas to 3.0 percent in Puerto Rico.

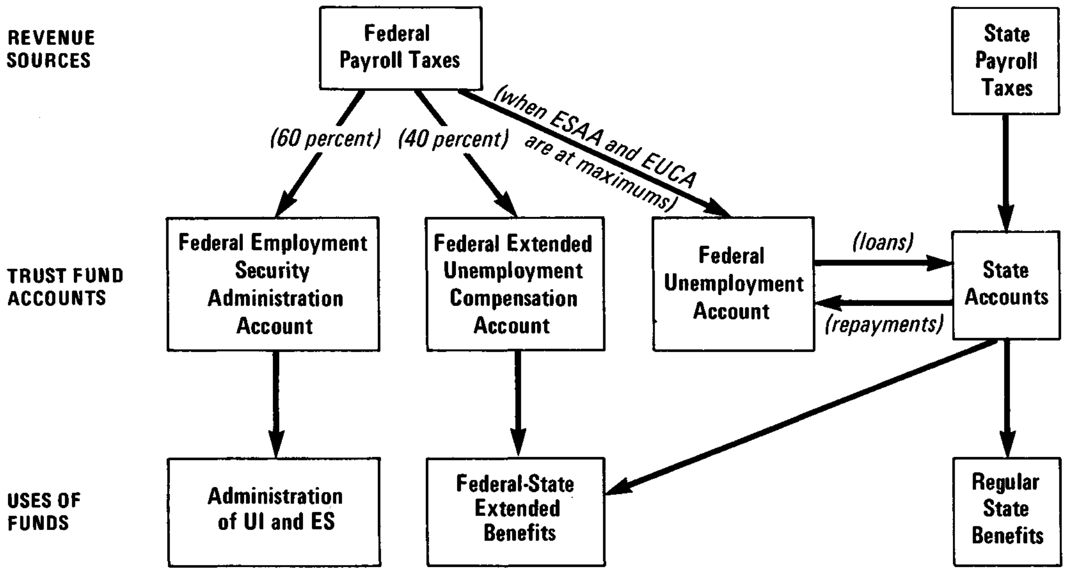
Federal UI Tax. In addition to state UI taxes, firms are also liable for federal UI tax contributions. The gross federal UI tax under the Federal Unemployment Tax Act (FUTA) of 1939 is 3.5 percent of the first $7,000 in covered wages per employee, but this tax rate is reduced by up to 2.7 percentage points in states whose UI laws conform to federal rules. In states receiving the full 2.7 percentage-point tax reduction, therefore, the net federal tax is 0.8 percent of the first $7,000 in covered wages, or $56 annually for each employee with at least that amount of wages. States may not receive this full tax reduction if they have delinquent UI loans, however. The federal tax is levied on employers who, in the then current or prior year, either employed at least one person for 20 weeks or had a quarterly payroll of at least $1,500.

Organization of the Unemployment Trust Fund

The financial structure of the Unemployment Insurance system is reflected in the flows of tax revenues, benefit payments, and administrative outlays through accounts in the Unemployment Trust Fund (UTF). This fund consists of 53 state accounts and separate federal accounts for specific purposes. Funds flow into these accounts from state and federal payroll taxes, loans from other accounts, and loans and transfers from the federal general fund. Expenditures are in the form of benefit payments, administrative costs, and the provision of loans to other accounts. These flows are described below and are shown in Figure 1.

State Accounts. Each state has a separate account in the UTF. The primary source of funds for these accounts is state UI payroll tax revenue; when this revenue is insufficient to cover outlays, the state borrows from the Federal Unemployment Account in the UTF. Outlays from state

Figure 1.
Unemployment Insurance Account Structure and Flow of Funds



SOURCE: Congressional Budget Office.
NOTE: Does not include loans to federal UI accounts from the general fund, nor transfers among accounts when they reach statutory funding limits.

accounts are limited primarily to the payment of regular and extended benefits to unemployed workers.

The Extended Unemployment Compensation Account (EUCA). The Extended Unemployment Compensation Account finances the federal share of Extended Benefits paid to workers in states with high unemployment. 11/ Revenues deposited in EUCA are 40 percent of those generated by the federal UI payroll tax on employers. If this account has more than its

---

11. During 1972-1973 and 1975-1977, funds from this account were also used to finance federal supplemental benefits for the long-term unemployed. The current federal supplemental program is financed from federal general revenues, however.

TABLE 2. STATE UNEMPLOYMENT INSURANCE PAYROLL TAX INDICATORS, JANUARY 1983 (In dollars and percentages)

State	Tax Base	Tax Rate on Taxable Earnings: Min.	Tax Rate on Taxable Earnings: Max.	Estimated Average Tax Rate a/ on Taxable Earnings	Estimated Average Tax Rate a/ on Total Earnings
Alabama	7,000	0.5	4.0	1.9	0.9
Alaska	20,200	1.0	6.5	3.0	2.0
Arizona	7,000	0.1	2.9	1.2	0.4
Arkansas	7,000	0	6.0	2.5	1.4
California	7,000	0.7	4.7	2.8	1.0
Colorado	7,000	0	4.5	1.2	0.6
Connecticut	7,000	0.1	6.0	2.3	0.8
Delaware	7,200	0.1	7.0	3.4	1.0
District of Columbia	8,000	0.8	4.5	3.0	1.2
Florida	7,000	0.1	4.5	1.0	0.4
Georgia	7,000	0.01	5.7	1.4	0.5
Hawaii	13,800	0	4.5	1.7	1.2
Idaho	14,400	0.2	4.4	2.1	1.4
Illinois	7,000	0.2	5.3	3.8	1.4
Indiana	7,000	0.02	4.5	2.8	1.1
Iowa	9,400	0	6.0	2.4	1.2
Kansas	7,000	0.025	3.8	2.5	1.1
Kentucky	8,000	0.3	10.0	3.4	1.9
Louisiana	7,000	0.1	4.5	2.1	1.0
Maine	7,000	0.5	5.0	3.1	1.3
Maryland	7,000	0.1	6.0	2.5	0.8
Massachusetts	7,000	0.4	6.0	3.3	1.4
Michigan	8,000	0.3	6.9	4.1	1.3
Minnesota	9,000	0.1	7.5	2.4	1.1

(Continued)

Mississippi	7,000	0.1	4.0	2.9	1.4
Missouri	7,000	0	4.4	2.7	0.9
Montana	8,200	0.2	4.4	2.7	1.4
Nebraska	7,000	0	3.7	1.8	0.7
Nevada	10,200	0.3	4.7	1.7	1.0
New Hampshire	7,000	0.01	6.5	1.4	0.6
New Jersey	8,800	0.4	6.2	3.4	1.6
New Mexico	9,300	0.1	5.1	1.7	0.9
New York	7,000	0.3	5.2	3.1	1.1
North Carolina	7,000	0.1	5.7	1.6	0.7
North Dakota	10,150	0.3	6.0	2.7	1.5
Ohio	7,000	0	4.3	2.9	1.1
Oklahoma	7,000	0.1	5.2	0.8	0.4
Oregon	12,000	0.9	4.0	2.9	1.7
Pennsylvania	7,000	0.3	4.9	4.1	1.6
Puerto Rico	All	3.0	3.0	3.0	3.0
Rhode Island	9,200	1.0	6.0	4.1	2.3
South Carolina	7,000	0.25	4.1	1.9	0.9
South Dakota	7,000	0	9.0	1.6	0.8
Tennessee	7,000	0.15	7.0	2.8	1.0
Texas	7,000	0.1	8.5	0.6	0.3
Utah	14,800	0.5	3.0	1.7	1.1
Vermont	7,000	0.2	5.5	3.2	1.5
Virgin Islands	8,000	b/	b/	3.1	1.6
Virginia	7,000	0.01	6.2	1.8	0.8
Washington	11,400	0	3.0	3.0	1.7
West Virginia	8,000	0	7.5	4.8	2.1
Wisconsin	7,000	0	5.0	2.7	1.1
Wyoming	7,000	0	2.7	2.5	1.5

SOURCE: U.S. Department of Labor, Unemployment Insurance Service, Comparison of State Unemployment Insurance Laws (January 1983) and unpublished data.

a. Calendar year 1982.
b. Tax rate is adjusted frequently.

statutory limit in funds at the end of a fiscal year, the remainder is transferred to other accounts in the UTF. 12/

The Employment Security Administration Account (ESAA). The Employment Security Administration Account is used to finance the federal and state costs of administering Unemployment Insurance and the Employment Service. Revenues for the ESAA account consist of the 60 percent of FUTA revenues not assigned to the EUCA account. Balances in excess of the legal maximum amount are transferred to other trust fund accounts.

The Federal Unemployment Account (FUA). The Federal Unemployment Account provides loans to states for the payment of benefits. Revenues from the federal tax flow to this account when both the ESAA and EUCA accounts have reserves at their statutory limits. Funds in excess of the legal maximum in FUA are distributed to state accounts, although this most recently occurred in the late 1950s.

Under federal law, state loans from this account received after March 31, 1982, are assessed interest if they are not repaid within the fiscal year in which they originated. 13/ The rate of interest is the average rate paid by the federal government on all outstanding federal obligations, but not more than 10 percent. The current rate is 10 percent. States are not allowed to borrow from the FUA to make interest payments on loans, but they may defer most of their interest payments if their state insured unemployment rate exceeds 7.5 percent or if their state total unemployment rate exceeds 13.5 percent.

States have from two to three years to repay the principal of their loans, after which time special federal remedies go into effect. 14/

---

12. Each federal account in the Trust Fund has a statutory funding limit. At the end of a fiscal year, funds in the Extended Unemployment Compensation Account and the Federal Unemployment Account should not exceed $750 million or 0.125 percent of total covered wages in the preceding calendar year. Funds in the Employment Security Administration Account should not exceed 40 percent of the appropriation to that account in the preceeding fiscal year. See Congressional Research Service, Unemployment Insurance: Financial Trouble in the Trust Fund, Issue Brief IB79098 (September 7, 1982).

13. See Appendix A.

14. Loans are to be repaid by November 10 of the second year in which January 1 passes with the state still having the outstanding advance. Thus, a state has from 22 to 34 months to repay its loan.

Employers in a delinquent state pay an additional federal tax of at least 0.3 percent of taxable payroll per year for each year the state is in arrears. For example, the first year the loan is delinquent, the net federal tax is increased from 0.8 percent to 1.1 percent; in the second year, the net tax rate rises to at least 1.4 percent; and so on until the loan is repaid. In past periods of high unemployment, the federal government has limited the conditions under which net federal tax increases are imposed, however. Because the federal UI tax is not experience rated, delinquent state borrowings are repaid by employers roughly in proportion to the size of their work force, and not according to their prior use of the UI program.

CHAPTER III. FINANCIAL STATUS OF THE UNEMPLOYMENT INSURANCE SYSTEM

The financial condition of the Unemployment Insurance system has deteriorated sharply in recent years. Since 1970, annual UI outlays have frequently exceeded payroll tax revenues, thereby reducing balances in the Unemployment Trust Fund and necessitating loans to certain states for the payment of benefits. In addition, federal accounts in the UTF have required advances from the federal general fund, both to provide loans to states and to pay federal benefits.

This chapter analyzes recent financial developments in the UI program, and describes the prospects for future financial stability.

RECENT EXPERIENCE

Unemployment Insurance benefits and tax receipts fluctuate in response to changes in the unemployment rate, increases in wage levels, and numerous changes in state and federal UI laws. Since 1970, however, overall annual benefit payments have exceeded payroll tax revenues in most years, resulting in declining program balances.

State UI Programs

State programs, in particular, have been unable to maintain a stable financial base during the last several years (see Table 3). Since 1970, state UI benefits have exceeded payroll tax revenues in all years except 1973, 1974, 1978, and 1979, reflecting, in part, high levels of joblessness in the economy. The annual imbalance in state accounts was $2.5 billion in fiscal year 1972 when unemployment was 5.9 percent, $5.2 billion in 1976 when the jobless rate was 8 percent, and $7.4 billion in 1982 when unemployment averaged 9.1 percent.

Benefits. State UI benefit payments--including regular UI and the states' 50 percent share of extended benefits--have increased since 1970, although they have also fluctuated with cyclical changes in joblessness. Total benefits reached cyclical highs of $5.7 billion in 1972, $11.6 billion in 1976, and $20.2 billion in 1982. Most of these payments have been for regular UI benefits, with annual state spending for EB reaching $1 billion only in 1976, 1977, and 1981.

TABLE 3. STATE UNEMPLOYMENT INSURANCE OUTLAYS AND REVENUE, 1970-1982 (In billions of dollars)

Fiscal Year	Benefits: Regular	Benefits: Extended a/	Tax Revenue	Revenue Less Benefits b/	National Unemployment Rate (percent)
1970	2.8	0	2.6	-0.2	4.0
1971	5.2	0	2.6	-2.6	5.7
1972	5.4	0.3	3.2	-2.5	5.9
1973	4.2	0.1	4.6	0.3	5.2
1974	4.9	0.1	5.3	0.3	5.0
1975	10.0	0.6	5.3	-5.3	7.3
1976	10.2	1.4	6.4	-5.2	8.0
1977	8.9	1.0	9.3	-0.6	7.4
1978	8.3	0.5	11.0	2.2	6.2
1979	8.7	0.1	12.3	3.5	5.8
1980	13.0	0.6	11.9	-1.7	6.8
1981	13.5	1.1	12.4	-2.2	7.4
1982	19.3	0.9	12.8	-7.4	9.1

SOURCES: U.S. Department of Labor, Unemployment Insurance Service; House Committee on Ways and Means, Background Material and Data on Major Programs Within the Jurisdiction of the Committee on Ways and Means, February 8, 1983; and Budget of the U.S. Government, various years.

a. Includes only the states' 50 percent share of Extended Benefit outlays.
b. Tax revenues less the sum of regular benefits and the states' share of Extended Benefits.

These benefit payments depend on the numbers of persons who receive them, the weekly benefit level, and the length of time the benefits are collected (see Table 4). 1/

The number of persons receiving regular UI benefits has fluctuated cyclically during the 1970-1982 period, reaching higher peaks during successive economic downturns and returning to higher ebb points after each recovery. Since 1974, the number of persons receiving their first regular UI benefit has averaged 9.3 million per year, and in only one year has fallen below 8 million.

The average weekly regular UI benefit has increased by 7.5 percent annually between 1970 and 1982--rising from $50 to $119 per week. A primary reason for this gain was the increase in the average weekly wage in covered employment from about $140 in 1970 to about $315 in 1982. This increase in earnings affected both average weekly benefits--calculated in many states as a fraction of the worker's prior earnings--and the maximum weekly benefit, which also depends on average covered wages in many states.

The average duration of regular UI benefits also increased between 1970 and 1982, although neither as sharply nor as systematically as average weekly benefits. The average duration of regular benefits fluctuated between 12.3 weeks in 1970 and 15.9 weeks in 1982. This probably reflected changes in the availability of jobs in the economy, since few major changes were made in statutory state benefit-duration limits.

Addition of the permanent Extended Benefit program in 1972 increased the total duration of UI compensation for persons who exhaust their regular Unemployment Insurance. Because of the mechanism used to initiate the payment of EB--providing added benefits only when unemployment in the state exceeds certain thresholds--the number of EB recipients has fluctuated dramatically. Between 1972 and 1982, the number of persons receiving extended benefits annually has varied from 100,000 to four million. The average actual duration of EB ranged between 8.5 weeks in 1972 and 11.4 weeks in 1980.

Tax Revenues. State payroll tax revenues have grown at an average annual rate of 14 percent since 1970, largely because of gradual increases in taxable wages and in the tax rate. The minimum taxable wage base per

---

1. Many changes in state laws--including changes in state benefit formulas and in the minimum and maximum benefit amounts--both increased and decreased benefits between 1970 and 1982.

21-582 O - 83 - 5

TABLE 4. STATE UNEMPLOYMENT INSURANCE BENEFIT STATISTICS, 1970-1982

Calendar Year	Regular: Average Weekly Benefit Amount (dollars)	Regular: Average Duration of Benefits (weeks)	Regular: Number of Initial Payments (millions)	Extended: Average Duration of Benefits (weeks)	Extended: Number of Initial Payments (millions)
1970	50	12.3	6.4	-	0
1971	54	14.4	6.6	9.1	1.4
1972	56	14.0	5.8	8.5	1.1
1973	59	13.4	5.3	9.1	0.2
1974	64	12.7	7.7	9.2	0.9
1975	70	15.7	11.2	9.4	4.0
1976	75	14.9	8.6	10.1	3.3
1977	79	14.2	8.0	9.3	2.7
1978	84	13.3	7.6	9.5	0.9
1979	90	13.1	8.1	10.0	0.3
1980	99	14.9	10.0	11.4	0.2
1981	107	14.5	9.4	10.4	0.1
1982	119	15.9	11.7	9.1	2.2

SOURCE: U.S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1976 (1978), and unpublished data.

worker increased twice, rising from $3,000 to $6,000 (see Table 5). As a result of that increase and a rise in the number of covered workers, total taxable wages grew from about $180 billion in 1970 to over $480 billion in 1982.

The average state UI tax rate on taxable wages increased from 1.3 percent in 1970 to almost 2.9 percent in 1977 and then declined to 2.5 percent in 1982, in response both to shifts among different rate schedules dictated by changes in state Trust Fund balances and to changes in state tax laws. During this period, the tax rate as a fraction of total wages first rose, from 0.64 percent in 1970 to 1.37 percent in 1978, before declining to 0.86 percent in 1982.

The Federal UI Program

Federal UI outlays have fluctuated with the nation's jobless rate in recent years, while federal UI revenues have increased more steadily. Unlike state programs, however, restrictions on the availability of federal benefits and increases in the federal tax base and tax rate have allowed the federal program generally to meet its financial obligations, even in periods of high joblessness.

Outlays. Federal outlays include those for benefit payments and for program administration. Federal EB outlays have fluctuated widely with joblessness, especially during the mid-1970s (see Table 6). Since 1981, however, EB outlays have been reduced considerably because of changes in federal law limiting their availability. Federal UI Trust Fund outlays also included Federal Supplemental Benefits and Special Unemployment Assistance payments in the mid-1970s. Since April 1977, however, temporary federal benefits--when available--have been financed with general funds, rather than with federal Trust Fund balances.

Federal payments for administration of UI and the Employment Service have grown steadily--increasing from $700 million in 1970 to $2.1 billion in 1982. Increases in these outlays have been related to growth in staff size and increases in the salaries of workers.

Tax Revenues. Federal UI payroll tax revenues increased from $800 million in 1970 to $3.2 billion in 1982, largely reflecting increases in the federal tax base plus a 0.2 percentage-point increase in the net federal tax rate beginning in 1977 to help repay outstanding general-revenue loans. Revenues also increased in response to required increases in the effective federal tax in states with delinquent UI loans, as discussed in the next section.

TABLE 5. STATE UNEMPLOYMENT INSURANCE TAX STATISTICS, 1970-1982

Calendar Year	Minimum Tax Base per Worker a/ (dollars)	Total Taxable Wages b/ (billions of dollars)	Average Tax Rate as Percent of Taxable Wages	Average Tax Rate as Percent of Total Wages
1970	3,000	183	1.34	0.64
1971	3,000	183	1.41	0.64
1972	4,200	236	1.70	0.88
1973	4,200	255	1.98	0.99
1974	4,200	265	2.00	0.95
1975	4,200	262	1.98	0.89
1976	4,200	301	2.58	1.20
1977	4,200	324	2.85	1.28
1978	6,000	412	2.77	1.37
1979	6,000	444	2.64	1.25
1980	6,000	459	2.48	1.08
1981	6,000	480	2.50	1.06
1982 c/	6,000	483	2.52	0.86

SOURCE: U.S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1976 (1978), and unpublished data.

a. Equal to the federal tax base per worker. States frequently have larger bases.
b. Based on actual tax bases in each state.
c. For period ending September 1982.

TABLE 6. FEDERAL UNEMPLOYMENT INSURANCE OUTLAYS AND REVENUE, 1970-1982 (In billions of dollars)

Fiscal Year	Outlays: Benefits a/	Outlays: Administrative Expenses b/	Payroll Tax Revenue c/	Revenue Less Outlays	National Unemployment Rate (percent)
1970	0	0.7	0.8	0.1	4.0
1971	0	0.8	1.0	0.2	5.7
1972	0.3	0.8	1.0	-0.1	5.9
1973	0.1	0.9	1.3	0.3	5.2
1974	0.1	0.9	1.5	0.5	5.0
1975	1.5	1.2	1.3	-1.4	7.3
1976	5.0	1.4	1.5	-4.9	8.0
1977	2.6	1.6	1.9	-2.3	7.4
1978	0.7	1.6	2.6	0.3	6.2
1979	0.1	1.7	2.9	1.1	5.8
1980	0.6	1.9	3.2	0.7	6.8
1981	1.1	2.1	3.3	0.1	7.4
1982	1.0	2.1	3.2	0.1	9.1

SOURCES: Committee on Ways and Means, Background Material and Data on Major Programs Within the Jurisdiction of the Committee on Ways and Means, February 8, 1983; and Budget of the U.S. Government, various years.

a. Federal share of EB, plus federal supplemental benefits that were financed by UI taxes.

b. Includes both federal and state administration costs for Unemployment Insurance and the Employment Service.

c. Federal UI revenues, including penalty tax payments by states with delinquent UI loans.

STATE AND FEDERAL UI LOANS

The worsening financial condition of state UI programs has caused several states to borrow from the Federal Unemployment Account to pay benefits. Also, federal accounts in the Unemployment Trust Fund have required advances from the federal general fund both to make these loans to the states and to pay a portion of federal benefits during 1975-1977. None of these loans directly affects the federal deficit, however, because all the accounts are included in the unified federal budget, making the loans merely intrabudgetary transfers. These loans, nonetheless, facilitate increases in the federal budget deficit because they permit benefits to exceed UI tax revenues.

State Loans

At the end of March 1983, 30 states owed the Federal Unemployment Account $13.7 billion (see Table 7). In 1982 alone, new state loans totaled nearly $5.2 billion, significantly exceeding the previous annual high of $1.9 billion in 1976. Since the beginning of 1975, 38 states have borrowed $17.2 billion, and about $3.5 billion has been repaid. Loan repayments have been slow even in times of little new borrowing, however, with annual repayments exceeding $1 billion only in 1979.

State UI loans at the end of March 1983 totaled about 1 percent of total annual covered wages in the economy, but were more than 3 percent in each of four large states in the industrial midwest--Illinois, Michigan, Ohio, and Pennsylvania--which together accounted for nearly three-fourths of all loans outstanding. Currently, 16 states are repaying delinquent state loans through mandatory increases in the effective federal UI tax paid by their employers. Loans repayments resulting from this provision are estimated by the Department of Labor to be about $600 million in fiscal year 1983. Maine currently has the largest federal tax increase at 0.9 percent of taxable payroll--resulting in a net federal tax rate of 0.8 percent plus 0.9 percent, or 1.7 percent, of the first $7,000 in taxable wages per covered employee. Connecticut has the second highest increase at 0.7 percent, followed by nine states at 0.6 percent, and five states at 0.3 percent. 3/

---

3. States paying a 0.6 percent penalty include Delaware, the District of Columbia, Illinois, New Jersey, Pennsylvania, Puerto Rico, Rhode Island, Vermont, and the Virgin Islands. States paying a 0.3 percent penalty are Arkansas, Michigan, Minnesota, Ohio, and West Virginia.

TABLE 7. FEDERAL LOANS TO STATES FOR UNEMPLOYMENT INSURANCE, 1975-1983 (In millions of dollars)

State	Calendar Years 1975-1977	1978-1980	1981	1982	Outstanding Loans March 31, 1983	Loans as Percent of Total Covered Wages a/
Total	**4,636**	**2,357**	**1,615**	**5,183**	**13,700**	**1.0**
Alabama	57	-	-	-	48	0.3
Arkansas	30	29	35	13	110	1.2
Colorado	-	-	-	4	70	0.3
Connecticut	415	37	-	-	294	1.2
Delaware	37	10	10	15	50	1.2
District of Columbia	59	15	-	16	68	1.0
Florida	42	-	-	-	-	-
Hawaii	23	-	-	-	-	-
Illinois	759	225	487	843	2,486	3.2
Indiana	-	-	-	-	40	0.1
Iowa	-	-	-	79	155	1.1
Kentucky	-	-	52	78	207	1.3
Louisiana	-	-	-	102	281	1.1
Maine	23	14	-	-	11	0.2
Maryland	63	-	-	-	-	-
Mass.	265	-	-	-	-	-
Michigan	624	842	233	1,182	2,558	4.4
Minnesota	172	28	86	193	393	1.5
Missouri	-	-	-	90	130	0.5
Montana	9	1	-	-	7	0.2
Nevada	8	-	-	-	-	-
New Jersey	639	96	-	-	520	1.0
North Dakota	-	-	-	-	12	0.4
New York	156	180	-	-	-	-
Ohio	2	246	354	1,134	2,062	3.1
Oregon	18	-	-	-	-	-
Pennsylvania	926	518	305	816	2,645	3.8
Puerto Rico	75	14	-	-	57	0.9
Rhode Island	75	55	-	-	95	1.8
Tennessee	-	-	-	-	53	0.2
Texas	-	-	-	143	398	0.4
Utah	-	-	-	-	25	0.3
Vermont	43	-	-	-	35	1.4
Virginia	-	-	-	-	46	0.2
Virgin Islands	11	-	-	-	4	0.8
Washington	105	-	-	-	-	-
West Virginia	-	47	53	45	226	2.4
Wisconsin	-	-	-	430	614	2.1

SOURCE: U.S. Department of Labor, Unemployment Insurance Service.

a. Covered wages for the one-year period ending September 1982.

TABLE 8. STATE UNEMPLOYMENT INSURANCE ACCOUNT BALANCES AT END OF FISCAL YEAR, 1970-1982 (In billions of dollars)

Fiscal Year	State Balances Net of Loans	Total Outstanding Loans	Total State Balances
1970	12.4	0	12.4
1971	10.5	0	10.5
1972	9.0	0.1	9.1
1973	10.0	0.1	10.1
1974	10.8	0.1	10.9
1975	6.1	0.7	6.8
1976	1.5	3.1	4.6
1977	1.2	4.5	5.7
1978	3.8	5.4	9.2
1979	8.2	5.1	13.3
1980	7.6	4.6	12.2
1981	6.7	6.2	12.9
1982	0.7	8.6	9.3

SOURCES: Budget of the U.S. Government, various years; Annual Report of the Secretary of the Treasury, various years; and unpublished data.

State balances net of loans reached a low of about $0.7 billion at the end of fiscal year 1982, although the total balance including borrowed funds was over $9 billion (see Table 8). The previous year-end low net balance was $1.2 billion at the end of 1977.

Federal Loans

Loans from the federal general fund to federal Trust Fund accounts totaled $15.3 billion at the end of fiscal year 1982. These loans were used for the payment of extensions of benefits by the federal government, and to provide funds for loans to states.

To Finance Federal Benefits. Outstanding loans used to pay federal extended and supplemental benefits reached a high of nearly $9 billion at the end of fiscal year 1978, and remained at $6.8 billion at the end of fiscal year 1982. Of the $9 billion in loans made through 1978, $5.8 billion was used to finance federal supplemental benefits in 1975-1977, and $3.2 billion was used to pay the federal share of extended benefits. No additional loans for these purposes have been required since 1978.

To deal with this component of the federal Trust Fund debt, the Congress in 1976 enacted a temporary 0.2 percentage-point increase in the effective federal UI tax paid by employers in all states. These additional revenues are used to make repayments on this part of the federal loan. When the debt is repaid, the net federal tax will be reduced from 0.8 percent to 0.6 percent.

To Finance Loans to States. The Federal Unemployment Account has also required advances from the general fund to finance nearly the entire amount of its loans to states. At the end of fiscal year 1982, that account had outstanding loans of $8.5 billion from the general fund. 4/

PROJECTED UI OUTLAYS AND REVENUES

With unemployment expected to decline slowly as the economy recovers, outlays for Unemployment Insurance are also projected to fall only gradually (see Table 9). Even with joblessness at about 9 percent, however, both state and federal UI programs are projected to have annual surpluses.

---

4. Authority for these loans recently was increased by about $5 billion as part of emergency jobs legislation (P.L. 98-8).

TABLE 9. CONGRESSIONAL BUDGET OFFICE PROJECTIONS OF UNEMPLOYMENT AND UI OUTLAYS AND REVENUE, 1983-1988 (In billions of dollars)

Fiscal Year	Projected Unemployment Rate (percent)	State Programs: Payroll Tax Outlays	State Programs: Revenue Less Revenue	State Programs: Outlays	Federal Program: Payroll Tax Outlays a/	Federal Program: Revenue Less Revenue	Federal Program: Outlays
1983	10.7	24.8	15.0	-9.8	4.3	4.5	0.2
1984	10.1	22.4	18.7	-3.7	4.2	5.2	1.0
1985	9.2	21.6	22.7	1.1	3.3	6.0	2.7
1986	8.5	21.3	25.5	4.2	3.3	7.8	4.5
1987	8.1	21.2	26.9	5.7	3.4	7.2	3.8
1988	7.6	21.1	27.8	6.7	3.4	7.9	4.5

SOURCE: The Congressional Budget Office, based on February 1983 economic assumptions.

a. Federally financed benefits plus state and federal administration of UI and ES.

State Outlays and Revenues

Benefits paid under state programs are projected to peak at nearly $25 billion in fiscal year 1983, and to remain above $21 billion through 1988. State payroll tax revenues are expected to continue to fall short of outlays through 1984; however, if joblessness declines as expected in fiscal years 1985-1988, annual state UI revenues could surpass benefits.

Significant amounts of additional state borrowing are likely to occur, especially in fiscal years 1983 and 1984. Using more optimistic economic assumptions, the Administration in April 1983 projected additional state borrowing of $7.2 billion in fiscal year 1983 and $4.6 billion in 1984. Total outstanding state loans are forecast by the Administration to peak at $18.7 billion at the end of fiscal year 1985. With lower joblessness in future years, the loan balances are then projected to decline.

Federal Outlays and Revenues

In contrast to the state programs, federal UI revenues are projected to exceed outlays throughout fiscal years 1983-1988, resulting in net surpluses during that period. Restrictions made in 1981 on the availability of extended benefits have significantly reduced those outlays, and the present general-revenue financing of Federal Supplemental Compensation has shifted the financial burden of that program away from the UI Trust Fund. Administrative costs are projected to remain relatively stable in future years, because of offsetting reductions in caseloads--which will require a smaller staff--and increases in salaries per person-year of staff time.

Federal tax revenues are projected by the Congressional Budget Office (CBO) to increase from $3.2 billion in fiscal year 1982 to nearly $8 billion in 1988. Among the reasons for this rise are the increases in the tax rate--from 0.7 percent to 0.8 percent--and in the tax base--from $6,000 to $7,000--that began in 1983. Federal revenues will also increase because of increases in the federal tax in states with delinquent loans, although these funds are earmarked for repayment of state loans.

Sensitivity to Economic Conditions

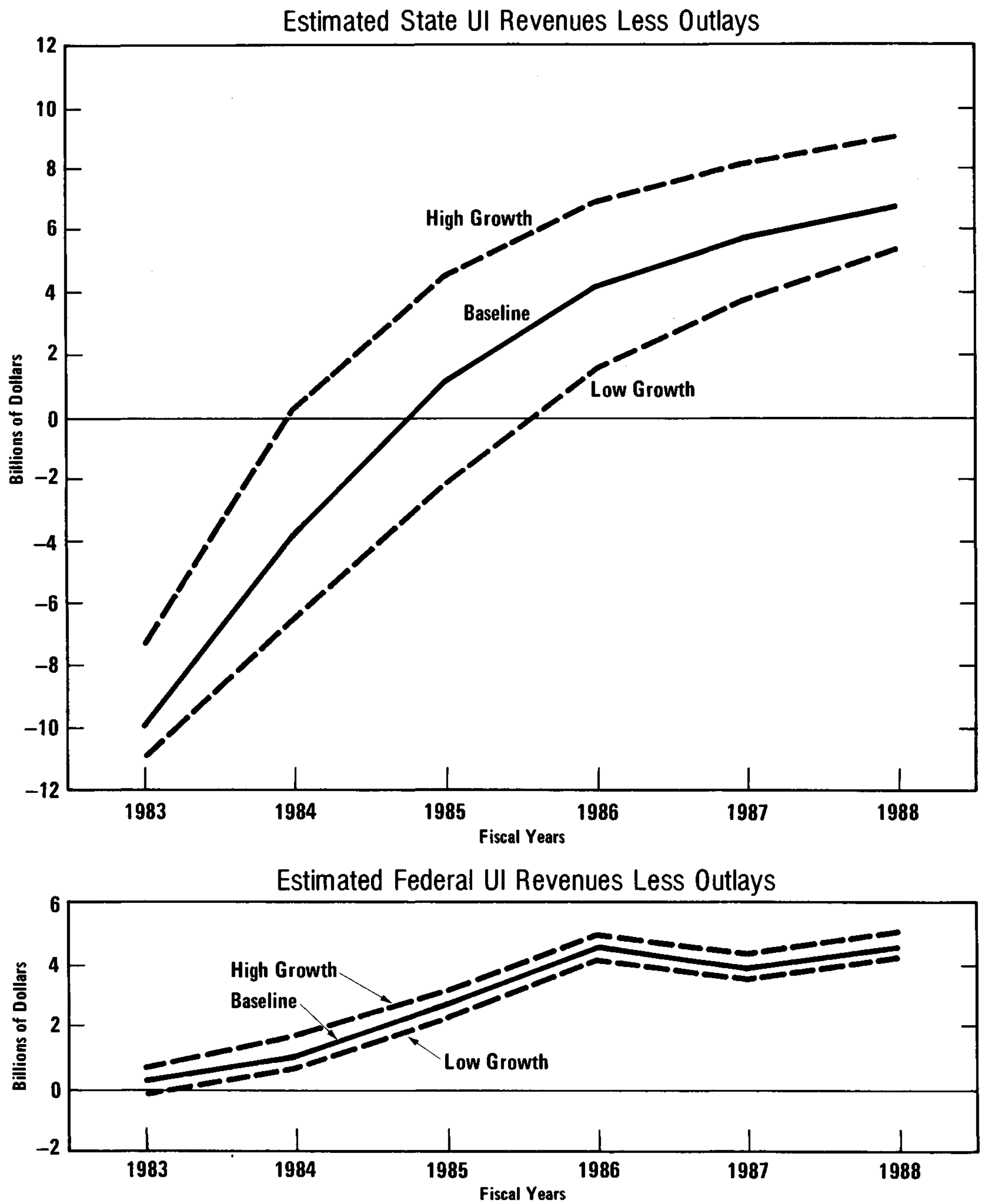
Future UI outlays and revenues depend on the future values of several economic factors, including the unemployment rate, the rate of inflation, and the overall rate of economic growth. The jobless rate affects UI outlays by influencing the number of program recipients, and affects revenues by determining, in part, the size of the work force on which UI tax payments are based. Inflation affects future wage rates which, in turn, are linked to future benefit levels. Finally, the overall rate of economic growth indirectly affects outlays and revenues through its effects on unemployment and inflation.

The sensitivity of annual UI outlays and revenues to economic conditions is presented in Figure 2. 5/ Revenues less outlays are displayed there under three economic scenarios--the CBO February 1983 baseline forecast and its high- and low-growth alternatives. The baseline projection assumes a moderate recovery from the recent recession, with real economic growth of 4.7 percent in calendar year 1984, declining to 3.5 percent by 1988; unemployment is projected to fall to 7.5 percent by 1988. The high-growth alternative assumes a real growth rate of 6 percent in 1984, declining to 4

---

5. See Appendix B for details of the economic assumptions and estimates of state and federal UI revenues and outlays for 1983-1988.

Figure 2.
Projections of State and Federal UI Revenues Less Outlays



SOURCE: Congressional Budget Office.

percent by 1988; joblessness is assumed to decline to 6 percent by 1988. Finally, CBO's low-growth alternative assumes that real growth reaches only 3.3 percent in 1984-1985 before falling to 3.0 percent in 1987-1988; unemployment under this scenario declines slowly to 9 percent in 1988.

State UI revenues are projected to exceed outlays in fiscal year 1985 and beyond under the CBO baseline assumptions (as indicated earlier); under the high-growth alternative this first occurs in 1984, and in the low-growth case it occurs in 1986. Annual state surpluses reach $6.7 billion in 1988 under CBO baseline assumptions, and $9.0 billion and $5.4 billion in the high- and low-growth cases, respectively. Estimated federal UI revenues exceed projected outlays throughout the 1984-1988 period under all three sets of economic assumptions.

CHAPTER IV. OPTIONS TO REGAIN FINANCIAL STABILITY AND PROMOTE EMPLOYMENT

While the UI system has been self-financing throughout most of its over 40 years of existence, economic and program conditions during the last few years have resulted in large drains on the system's resources. The program has also been criticized by some for not aiding recipients in finding jobs.

This chapter presents several options for helping the financial status of the UI system and for using the system to promote employment more actively. The options considered include:

- o Modifications affecting revenues;
- o Changes affecting benefits; and
- o Other changes affecting employment opportunities.

Perhaps the most severe problem facing the UI system is that of restoring solvency to several state programs. Many of the financial options in this chapter address this need by considering ways the federal government might bolster state revenue or limit outlays. The federal portion of UI is in better financial shape than many of the state programs, and options for this part of the program consist of ways to reduce past debts and provide additional federal funds for state loans.

Although some of the options would reduce the overall federal deficit, the primary emphasis is on program solvency and the needs of the unemployed. Table 10 details the effects of the considered financial options on both the Unemployment Trust Fund balance and the overall federal budget.

MODIFICATIONS AFFECTING REVENUES

Sources of revenue to the Unemployment Trust Fund include federal and state payroll taxes and, in recent years, federal general revenues to finance the payment of certain extensions of benefits. Options that could affect these revenues include those to:

TABLE 10. EFFECTS OF SELECTED UI OPTIONS ON UNEMPLOYMENT TRUST FUND BALANCES AND THE OVERALL FEDERAL BUDGET (By fiscal year, in billions of dollars)

	Unemployment Trust Fund Balance		Overall Federal Revenue Less Outlays	
Option	1984	Annual Average 1986-1988	1984	Annual Average 1986-1988
Revenue Changes				
Index Federal Taxable Wage Base	0.8	2.7	0.8	2.7
Return Income Tax Revenue to UI System	1.7	1.5	0	0
Finance Benefit Extensions from General Revenue	1.7	0.7	0	0
Forgive Certain General-Revenue Loans a/	0	-1.3	0	-1.3
Benefit Changes				
Establish Two-Week Waiting Period	1.1	1.0	1.1	1.0
Limit Weekly Benefit to 50 Percent of Average Wage in State	1.2	1.1	1.2	1.1
Provide Variable Maximum-Duration Extended Benefits	0.5	0.2	0.5	0.2

SOURCE: Congressional Budget Office.

a. Also assumes the net federal payroll tax would be reduced by that amount now earmarked to repay the general-revenue loan.

- o Index the federal UI taxable wage base to changes in average wages; and
- o Modify the relationship between the Trust Fund and the federal general fund.

Index the UI Taxable Wage Base

UI benefits now depend in large part on past wage levels, because the weekly benefit amount is determined primarily by previous wages, and also because the maximum benefit is often tied to average wages in the state. Indexing the federal taxable wage base--which also serves as the minimum wage base for state UI taxes--to average wages in the national economy would help to tie UI revenues to changes in wages as well. 1/ This method is currently used to determine the taxable wage base for Social Security.

The federal UI taxable wage base has been increased only three times from its $3,000 level in 1940. The wage base of $7,000 in 1983 results in taxable wages being only about 40 percent of average annual wages in covered employment, down from 48 percent in 1970 and 93 percent in 1940. At the same time, state tax rates have increased significantly in recent years: the average state tax as a fraction of taxable wages, for example, has increased from 1.3 percent in 1970 to 2.5 percent in 1982.

A major result of indexing the federal taxable wage base would be to increase state tax bases as well. These increases would have larger dollar impacts on tax revenues than would an increase in the federal base, because the average state tax rate is much larger than the federal rate--2.5 percent compared to 0.7 percent in 1982, for example. On the other hand, increased state UI tax revenues would result in lower state UI tax rates on employers because the improved financial condition of state UI programs would shift states to lower tax-rate schedules.

If the federal UI taxable wage base was indexed to changes in average wages in the economy beginning in fiscal year 1984, additional revenues of $800 million would be available to the UI system in fiscal year 1984 and a total of $10.5 billion in additional revenues would be available during the

---

1. Increases in the federal tax rate on employers would also increase federal revenues; however, changing the federal tax rate would have no effect on state payroll tax revenues because state and federal tax rates are not tied together as are the tax bases.

1984-1988 period. 2/ By 1988, the taxable base would be about $9,200, compared to $7,000 under current law.

An increase in state tax bases compared to an increase in the average state tax rate would affect different employers differently, depending on whether they were high- or low-wage firms and whether their UI benefit-cost levels were high or low. Because of the large differences in state tax systems, however, generalizations cannot easily be made about which firms would be helped and which would be hurt by these changes. 3/

Some persons favor indexation of the federal UI wage base because they feel the base now is so low that it effectively limits the amount of experience rating of state taxes that occurs. Other proponents believe indexation would result in increased taxes for high-wage, stable employers, and favor this change because they feel these employers can afford the added costs most easily. On the other hand, opponents maintain that, because UI is an insurance system, most of the cost increases should be paid by those employers responsible for the added benefits. Some also contend that, because increasing taxes during the present economic recovery would have adverse effects on both employment and the recovery, any such increases should, at a minimum, be implemented with a lengthy delay.

Modify the Relationship Between the Unemployment Trust Fund and the Federal General Fund

Other changes could be made that would provide the Unemployment Trust Fund with additional resources from the federal general fund. Possible changes include those to:

- Return to the Unemployment Trust Fund income tax revenues derived from the taxing of UI benefits;

- Finance extensions of benefits from general revenues when unemployment is high; and

---

2. Some states with financially stable UI programs would likely reduce their UI tax rate if the base was increased, thereby offsetting some of the effect of this change on tax revenues.

3. See, for example, Joseph M. Becker, Unemployment Insurance Financing (American Enterprise Institute, 1981), pp. 111-128; and National Commission on Unemployment Compensation, Unemployment Compensation: Final Report (July 1980), pp. 80-86.

o Forgive certain general-revenue loans to the Trust Fund.

All of these options share some common features. Each would add to Trust Fund revenues, especially during periods of economic downturn, and could help to reduce the cyclical instability of the UI system. Depending on how these added funds were used, the UI Trust Fund deficit could be reduced, UI taxes could be reduced, or benefits could be increased. While these options could help the UI system, however, they would simply shift revenues between different Treasury accounts. In addition, these changes would be contrary to the self-financing principle under which the UI system has operated in the past.

Return Income Tax Revenue to the UI System. Returning that portion of federal income taxes paid on unemployment benefits would be one way to increase Trust Fund revenues. These funds could then be added to state UI account balances. Certain UI benefits have been taxed since 1979, but the revenues generated are not now returned to the UI system. During 1979-1981, UI benefits were subject to at least partial taxation if a taxpayer's adjusted gross income, including UI benefits, exceeded $20,000 for a single person and $25,000 for a couple. One-half of each dollar of benefits over those limits, up to the full amount of the UI benefit, was included in the recipient's adjusted gross income for the purpose of federal income taxation. Beginning in 1982, the income thresholds above which UI benefits are subject to tax are $12,000 and $18,000, respectively.

If the funds generated by this portion of the federal income tax were returned to the UI Trust Fund, the Treasury Department estimates that UI revenues could be increased by $1.7 billion in fiscal year 1984, and $7.7 billion during the 1984-1988 period. If all UI benefits were subject to full taxation--not just those that increase incomes above $12,000 or $18,000--and if the proceeds were returned to the Trust Fund, those revenues could be increased by a total of $4.4 billion in 1984.

Some persons maintain that this tax revenue should be returned to the UI program because it represents revenues primarily from state-financed benefits. Others favor the proposal because increased taxation of benefits was proposed as a way of offsetting additional Trust Fund spending for benefits, especially for the tax change beginning in 1982. Others object to the proposal because it would result in the earmarking of income tax revenue for special purposes and would reduce flexibility in the use of general revenues. A similar policy was recently enacted for the Social Security system, in which one-half of those benefits are subject to taxation on incomes exceeding $25,000 for singles and $32,000 for couples, with revenues generated being returned to the Social Security fund.

Finance Extensions of Benefits from Federal General Revenues. Using general revenues to finance extensions of benefits during periods of high unemployment would provide additional money to the Unemployment Trust Fund at times when outlays are greatest. Under this option, either the state and federal shares of extended benefits, or only the state share, could be paid from general revenues when the national unemployment rates exceeded a certain level--8 percent, for example. The present Federal Supplemental Compensation program is now financed from federal general funds, as were special programs in 1977-1978.

If both the state and federal shares of EB were financed with federal general funds, Trust Fund outlays would be reduced by $1.7 billion in fiscal year 1984, and by a total of $4.7 billion in the 1984-1988 period. If only the state share of EB was financed in this manner, Trust Fund outlays would be reduced by one-half of these amounts.

Some support this proposal with the view that unemployment--especially high unemployment--is primarily a national problem, which is affected by national economic policies and priorities, and therefore that general revenues should be used to finance extensions of benefits during these periods. Some also maintain that lengthy periods of unemployment for an individual--those over 26 weeks, for example--are less the responsibility of former employers than are the first few weeks, so that employers should not have to finance benefit extensions.

Opponents maintain that the UI system--including the Extended Benefit program--was designed to be self-financing and that the infusion of general revenues should not be needed. The payroll tax was an essential part of the UI system when it was first established, and the system has been able to perform satisfactorily for many years with only this source of funds. They maintain that, if additional benefits cannot be adequately financed by payroll tax revenues, those benefits should not be provided.

Forgive Certain Outstanding General Revenue Loans. The Unemployment Trust Fund borrowed $9 billion from the federal general fund to pay the costs of federally funded benefits in the mid-1970s--including $5.8 billion for federal supplemental payments and $3.2 billion for the federal share of EB--and a debt of $6.8 billion still remained at the end of 1982. As noted earlier, the Congress has enacted a temporary 0.2 percentage-point increase in the net federal UI payroll tax until this loan is repaid--which the Administration expects will be in 1987.

If the $5.8 billion loan used to finance federal supplemental payments was forgiven, the federal payroll tax on employers could be reduced by 0.2 percentage points in the calendar year after the remaining EB loan was repaid--which will probably be in fiscal year 1984. Alternatively, the

Congress could continue that additional tax in states with outstanding UI loans from the Trust Fund, and reduce it only in states without such loans. The tax revenues so generated in the debtor states could be used to help repay their outstanding loans.

If the 0.2 percent added federal tax was removed beginning in calendar year 1985, federal UI payroll taxes could be reduced by $600 million in fiscal year 1985, and by a total of $4.5 billion in the 1985-1988 period. If that portion of the added federal tax collected in debtor states was used to help repay state loans, about $350 million in outstanding state loans could be repaid in fiscal year 1985 and as much as $800 million in fiscal year 1986. 4/

Supporters contend that the debt to the general fund should be forgiven because it was incurred during a time of high national unemployment, when such benefit extensions should have been financed with general revenues. In addition, federal general revenues were used to pay for similar benefits later in the same recession and in the 1981-1982 downturn. If the added tax was used to repay state debts to the Trust Fund, it would also help debtor states regain financial stability without increasing state taxes. On the other hand, forgiving this general fund debt would add to future federal budget deficits in the sense that it would eliminate this source of revenue to the general fund.

CHANGES AFFECTING BENEFITS

Regular UI benefits are now determined by the states, with little input from the federal government. Recent increases in outlays for Extended Benefits, however, and the desire to contain federal spending overall, have prompted the Congress to restrict the availability of federal-state Extended Benefits. This section presents possible restrictions on regular state benefits and further changes in the Extended Benefit program.

Restrict Regular UI Benefits

The federal government could require that states, as a condition for approval of their UI programs, limit both the circumstances under which regular benefits are available to unemployed workers and the amounts of those benefits. Such restrictions might lower outlays--thereby helping to

---

4. A total of 36 states are projected by the Administration to have outstanding Trust Fund loans at the end of fiscal year 1984. See Department of Labor, UI Outlook (April 1983).

alleviate the financial problems of the system--while also reducing the work disincentive provided by the availability of UI benefits. On the other hand, the federal government has only infrequently exercised its power to make such restrictions beyond the initial establishment in 1935 of criteria for approval of state UI programs. Some persons feel this precedent should be maintained because each state has financial responsibility for the benefit and eligibility provisions in its laws. Further, some argue that labor-market conditions in various states are sufficiently different so that states are better able to design benefit standards to fit those conditions.

Specific restrictions on state benefits that might be implemented include those to:

- Establish a two-week waiting period before UI benefits are available; and

- Limit the maximum benefit level to 50 percent of the average weekly wage in the state.

Because these changes would require modifications in state UI laws, it would be necessary to allow for some delay in implementing them.

Establish a Two-Week Waiting Period Before Benefits Are Available. The federal government could require beneficiaries in all states to wait two weeks before their initial receipt of benefits. The maximum length of time jobless persons could collect benefits would not be affected by this change--for example, a person otherwise eligible for 26 weeks of benefits would remain eligible for that amount, but the payment period would represent weeks 3-28 of joblessness. Under current state laws, 42 states require beneficiaries to wait one week before receiving regular benefits; the remaining states have no waiting period. 5/

If this change was made, outlays for regular UI could be reduced by approximately $1.1 billion in 1984 and by $5.1 billion during the 1984-1988 period. This change would not reduce total benefits for persons whose unemployment lasted the maximum compensable time, although a two-week waiting requirement would add to a worker's initial cost of joblessness. The

---

5. In seven of the 42 states with a one-week waiting period, beneficiaries are paid for the waiting week if they remain unemployed for a certain length of time--usually three weeks to nine weeks. The proposal considered here would not allow benefits to be paid for the two-week waiting period in any state.

change would also encourage faster job search--possibly while still employed--to avoid the period without income.

Limit Wage Replacement to 50 Percent. The largest weekly benefit a jobless person can currently receive differs significantly from state to state, and 36 states have a flexible maximum benefit that varies over time with the state's average weekly wage. These flexible maximums range from 50 percent to 70 percent of the average weekly wage in a state.

Limiting the maximum weekly benefit to 50 percent of a state's average weekly wage would reduce the weekly benefit for certain formerly higher-wage unemployed persons in 30 of the 36 states with flexible maximums, plus some similar persons in states where the pre-set maximum benefit would otherwise exceed half of the state's average weekly wage. This change would reduce regular UI benefits by over $1.2 billion in 1984, and by over $5.8 billion during the 1984-1988 period. 6/

Proponents maintain that this change would still allow the maximum benefit to differ among states, but would tie that maximum to the same share of average weekly wages. Others contend, however, that the change would severely hamper the ability of states to set benefit levels commensurate with the needs of their workers.

Restrict Extended Benefits

Extended Benefit program funds could be further targeted on high-unemployment areas by providing longer durations of EB in states with the highest jobless rates. Under current law, extended benefits are either not available in a state or are available for 13 weeks, depending on the state's insured unemployment rate (IUR) and the magnitude of the present rate compared to past rates. Instead, the maximum potential duration of these benefits could be made to vary--for example, between zero and 13 weeks--according to the state's IUR. 7/

---

6. These figures underestimate the total savings from restricting the maximum weekly benefit because they include savings only for those persons who would otherwise receive a benefit equal to the state maximum. The total savings could be considerably larger.

7. Recent diversions between the IUR and the total unemployment rate raise the question of the suitability of the IUR to scale benefit eligibility periods. See Gary Burtless, "Why Is Insured Unemployment So Low?" (The Brookings Institution, March 31, 1983).

The budget impact of this option would depend on the levels of insured unemployment that would trigger the various EB durations. 8/ For example, if EB was available for up to 8 weeks in states with IURs between 4.5 percent and 5 percent, 10 weeks in states with IURs between 5 and 5.5 percent, and 13 weeks in states with IURs over 5.5 percent, there would be little change in EB outlays. If these IUR thresholds were 5, 5.5, and 6 percent, however, and 6.5 percent in states that do not meet the 120-percent rule, EB outlays could be reduced by $500 million in fiscal year 1984 and $1.8 billion in 1984-1988.

These changes would make the durations of benefits similar to those in the present Federal Supplemental Compensation program--where benefit durations are increased with state unemployment rates. On the other hand, they would mean reductions in benefit durations for many long-term jobless persons, if the changes were designed to reduce EB outlays.

OTHER CHANGES AFFECTING EMPLOYMENT OPPORTUNITIES

The UI system could be used to promote more aggressively the reemployment of long-term unemployed persons. Once persons are unemployed for three or four months or more, for instance, they may have little prospect of returning to their previous work. Such workers might be allowed the option of using their remaining regular benefit entitlement, or their Extended Benefit entitlement, for purposes other than weekly cash benefits. The funds could be used to help them find new employment, relocate, or acquire retraining. In addition, some UI funds could be used to promote so-called shared-work programs that would spread the costs of unemployment--and the benefits of employment--among more workers. These changes could be designed to have little effect on overall UI costs by diverting some of the funds otherwise likely to be paid out as benefits.

Use UI Funds as a Wage Subsidy for Employers

Long-term UI recipients could be allowed the option to transfer part of their benefit entitlements to vouchers payable to new employers. These vouchers could be redeemable on a portion of the workers' wages over

---

8. The options considered here all retain the provision of current law making EB available if the state's IUR is at least 20 percent larger than during the same period of the last two years; if that is not the case, EB is available only if the state's IUR exceeds 6 percent in the first option and 6.5 percent in the second.

several weeks of employment to ensure that the new jobs were not short-term ones. Making them available only to new employers could limit possible abuses of the subsidy by employers who might otherwise cycle workers through jobless spells to receive the subsidy. The employment subsidy also could be limited to those employers that use it to expand their overall work force, and could be limited to a certain fraction of a firm's total work force. 9/

The value of the voucher could be determined in one of several ways. For example, it could be a multiple of the worker's weekly benefit amount--currently about $120 per week--with that multiple depending on the number of weeks of regular or extended UI the jobless worker had remaining. If the EB program was used, and if the worker had already collected 3 of the 13 weeks of benefits available, for instance, the value of the voucher would be $1,200, on average. Alternatively, the value of the voucher could be set at a certain dollar amount.

A voucher could probably be designed to have little additional federal cost as long as the subsidy did not simply create unemployment among other workers. Eligible workers would already have been unemployed for several months and, if the vouchers were not available, benefit payments probably would otherwise have to be made to many of them. In addition, the federal government would recoup some of the wage subsidy in the form of increased personal income tax revenues. The subsidy would also reduce employers' business expense deductions for wages, further increasing federal tax revenues. On the other hand, if other workers were displaced by voucher recipients, this could add to UI costs.

If increases in overall employment were the primary objective of the voucher program, concern would need to be focused on the extent to which jobs subsidized by the program would have been created in any case, whether the jobs came at the expense of other workers, and whether the jobs lasted beyond the period of the subsidy. Although it is likely that during the current period of high unemployment many of those getting subsidized jobs would not otherwise have found work, some of them might be benefiting at the expense of other jobless persons who did not receive the wage subsidy. This could occur either because workers with vouchers would be hired instead of other jobless persons, or because workers with vouchers

9. As part of its 1984 budget proposal, the Administration proposed a voucher for FSC recipients. According to that plan, new employers would receive a tax credit equal to one-half of the worker's weekly FSC benefit for each week of new employment, up to the remaining dollar amount of the FSC entitlement.

would be hired to replace other employees. In addition, because UI recipients often have considerable work experience, they might be likely to use vouchers to obtain interim, rather than permanent, employment, later returning to their previous jobs or taking better jobs as they became available.

Proponents of this change maintain that it would be more efficient to use UI funds to promote reemployment than simply to compensate the jobless for remaining so. The perceived low added cost is also an appealing aspect of the voucher program to some. On the other hand, experience with past wage-subsidy programs--most notably the New Jobs Tax Credit in 1977-1978 and the present Targeted Jobs Tax Credit--has been mixed, with some indication that relatively small wage subsidies may not be effective in creating additional jobs in the economy. 10/ Some critics of the voucher proposal maintain that Unemployment Insurance is designed to compensate those who have lost their jobs, and not to finance their reemployment.

Use UI Funds to Promote Relocation or Retraining

Alternatively, long-term UI recipients could be allowed to receive at least part of their remaining entitlements as lump-sum payments to be used for relocation or for retraining. 11/ UI benefits can now be transferred from one state to another if the recipients move, but if jobless workers wait several weeks before deciding to relocate, they may lack the necessary funds. The lump-sum payment might also be used to pay for training that could improve the recipient's chances of being reemployed.

Geographic relocation might be the best option for certain long-term UI recipients whose skills are in demand in other regions of the country.

---

10. For a discussion of the effectiveness of wage-subsidy programs in creating new jobs, see CBO, "Strategies for Assisting the Unemployed" (December 8, 1982), and Improving Youth Employment Prospects (February 1982). Studies have indicated that for the majority of firms the most important consideration in hiring decisions was the level of product demand, rather than the marginal cost of labor, and that, at least in the past, employers were extremely reluctant to increase hiring in response to a credit without confidence that the additional output produced could be sold for a profit.

11. For a more detailed discussion of reemployment aid for experienced workers see CBO, Dislocated Workers: Issues and Federal Options (July 1982).

Relocation assistance could include subsidizing job-search costs and moving expenses. Similar aid is available to certain unemployed persons under the Trade Adjustment Assistance program--which pays 90 percent of reasonable job-search expenses up to $600, plus 90 percent of additional relocation allowances and a lump-sum payment of up to $600 to cover part of moving expenses. In addition, Title III of the Job Training Partnership Act provides aid for job-search, counseling, and training.

Long-term UI recipients whose employment problems derive from skills that are firm-specific or obsolete might be assisted in obtaining retraining. Such aid could promote either vocational training or on-the-job training, in addition to job-search assistance. Direct training in a particular skill would generally be most appropriate for this group of experienced workers, because they already have developed the basic skills and good work habits necessary for successful reemployment. Although the costs of those services could vary considerably with the type of assistance provided, vocational training costs could be about $2,200 per worker in fiscal year 1984, while on-the-job training costs could equal about $2,600--assuming earnings were subsidized to the amount of 30 percent for six months. 12/

If EB recipients were allowed to use their full entitlement for retraining or relocation, and if 50 percent used retraining aid and 5 percent relocation assistance, EB costs could increase by $165 million in fiscal year 1984 as a result of these changes.

Share the Costs of Unemployment

The federal government could also encourage and work with states to implement so-called "work-sharing" programs. Such programs have been implemented in Arizona, California, and Oregon. They allow certain employers to reduce staff hours across the board rather than laying off some people entirely, and permit employees to draw prorated UI benefits for the lost hours of work. Under such a plan, for example, instead of 20 percent of a firm's employees being laid off, each employee's hours could be reduced by 20 percent and each would then receive 20 percent of the full UI benefit. The Tax Equity and Fiscal Responsibility Act of 1982 directed the Department of Labor to develop model legislation for state work-sharing programs, and additional aid could be provided to help states develop and implement such programs quickly.

---

12. See Abt Associates, Reemploying Displaced Workers: The Implementation of the Downriver Community Conference Economic Readjustment Program (1982) and CBO, Dislocated Workers.

Preliminary evidence indicates that this type of plan has been successful in California. 13/ First implemented in 1978, that program allows the payment of partial UI benefits for up to 20 weeks to workers whose hours are reduced because of a temporary slump in economic activity. In order to qualify, a worker must be eligible for UI and the normal workweek must be reduced by at least 10 percent. In the first two years of operation in California, about 1,300 work-sharing plans were approved affecting about 35,000 workers.

In order to extend these plans beyond the present small number of states, however, other states' laws that prohibit persons who work more than some minimum amount from receiving UI benefits would have to be changed. Substantial labor-management cooperation would also be required to make the plans work widely. Outlays for program administration could be increased by this option because of the increase in the number of persons who would receive partial UI benefits.

Proponents of the work-sharing option maintain that such programs could increase job security for workers, and reduce some costs for firms as well. For example, by retaining employees during temporary production cutbacks, firms could be saved the costs of recruiting, rehiring, and retraining new workers to replace experienced ones who found other jobs during their layoff. Employees could continue to receive medical coverage and other fringe benefits that would be expensive to obtain privately.

On the other hand, such plans would ignore established seniority systems and shift part of the burden of unemployment to more senior personnel. Some argue that work-sharing plans might also permanently increase employers' UI taxes by making them more willing to lay off workers.

---

13. For an analysis of the California plan, see State of California, Legislative Analyst, A Review of the Shared Work Unemployment Compensation Program (January 1981).

APPENDIXES

APPENDIX A. RECENT LEGISLATIVE CHANGES IN UNEMPLOYMENT INSURANCE

Recent changes in the Unemployment Insurance system have not followed a consistent pattern, partly because of conflict between budget austerity and the desire to aid unemployed workers during a time of record-high joblessness. Since 1981, federal legislative changes have been made to:

- Restrict extended benefits;
- Authorize and extend Federal Supplemental Compensation;
- Increase the federal UI payroll tax; and
- Ease repayment and interest provisions of state UI loans.

For the most part, these changes were included in multipurpose federal laws: the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35), the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 (P.L. 97-248), and the Social Security Amendments of 1983 (P.L. 98-21).

This appendix reviews major provisions of the changes that occurred between 1981 and the first half of 1983.

RESTRICTIONS ON EXTENDED BENEFITS

Several restrictions on the availability of extended benefits were made by the Omnibus Budget Reconciliation Act of 1981. Changes included:

- Eliminating the national trigger for EB, under which benefits were available in all states when the national insured unemployment rate (IUR)--the fraction of workers covered by state UI programs that collect benefits--exceeded 4.5 percent;
- Changing the calculation of state IURs by not including EB recipients in the number of UI recipients;
- Changing state EB trigger rates from an IUR of 4 percent (and a rate that is at least 20 percent larger than during the same period of the previous two years) or, at state option, 5 percent, to 5 and 6 percent, respectively; and

- o Requiring recipients to have worked at least 20 weeks in the one-year base period (or to have an equivalent amount of earnings during that period) to be eligible for EB.

FEDERAL SUPPLEMENTAL COMPENSATION

The temporary Federal Supplemental Compensation program was authorized by TEFRA for the period September 12, 1982, through March 31, 1983. FSC benefits were provided to persons who exhausted regular--and, if available, extended--benefits for a maximum of six to ten weeks in different states, depending on the state insured unemployment rate. In particular, benefits were available for up to ten weeks in states where EB had been available at any time since June 1, 1982; eight weeks in states with IURs of at least 3.5 percent; and six weeks in the remaining states.

The Surface Transportation Assistance Act of 1982 (P.L. 97-424) increased the maximum number of weeks of FSC for each recipient beginning January 9, 1983, to the following levels:

- o 16 weeks in states with IURs exceeding 6 percent;
- o 14 weeks in states that provided extended benefits at some time between June 1, 1982, and January 6, 1983;
- o 12 weeks in states with IURs of at least 4.5 percent that did not pay EB during that period;
- o 10 weeks in states with IURs between 3.5 and 4.5 percent that did not pay EB during that period; and
- o 8 weeks in the remaining states.

Finally, the FSC program was modified and extended through September 1983 by the Social Security Amendments of 1983. For persons first receiving benefits after March 31, 1983, compensation was provided for a maximum of between 8 and 14 weeks; in addition, persons exhausting benefits before that time were allowed an additional 6-10 weeks of compensation. The particular length of benefits and the eligibility requirements were as follows:

For basic FSC benefits:

- o 14 weeks in states with IURs in excess of 6 percent;
- o 12 weeks in states with IURs between 5 and 6 percent;

- o 10 weeks in states with IURs between 4 and 5 percent; and
- o 8 weeks in the remaining states.

For additional FSC benefits:

- o 10 weeks in states with IURs of 6 percent or more;
- o 8 weeks in states with IURs between 4 and 6 percent; and
- o 6 weeks in the remaining states.

INCREASES IN THE FEDERAL UI PAYROLL TAX

Increases in the federal tax base and tax rate beginning in 1983 were also enacted by TEFRA. The federal taxable wage base was increased from $6,000 to $7,000, and the gross federal tax rate was increased from 3.4 percent to 3.5 percent. The net federal tax was also increased from 0.7 percent to 0.8 percent, while the federal tax credit for employers in states with federally approved state UI programs was left unchanged at 2.7 percent.

Effective in 1985, TEFRA also increased the gross federal tax rate to 6.2 percent and the tax credit to 5.4 percent, leaving the net federal tax at 0.8 percent. This change will require states to include in their state UI tax systems a maximum tax rate on employers of 5.4 percent of taxable wages.

EASING OF STATE LOAN REPAYMENT AND INTEREST PROVISIONS

Effective from 1981 through 1987, the Omnibus Budget Reconciliation Act of 1981 limited the maximum increase in the federal tax penalty on states with delinquent loans to the higher of 0.6 percent or the state's current rate, so long as the state met certain solvency criteria. These conditions--the last two of which apply only in 1983-1987--were that the state:

- o Must not act in any way to decrease the solvency of its UI program;
- o Must not reduce its UI tax;
- o Must have a UI tax that, as a fraction of total wages in the state, is at least as large as the ratio of UI benefits to total wages during the last five years; and

- o Must reduce its outstanding UI loan in each year to no more than the amount of that loan three years earlier.

Effective in 1983, however, these conditions were modified by TEFRA to allow states to avoid further increases in their federal tax penalty by promptly repaying new loans and enacting changes in their state UI laws to increase the solvency of their UI programs.

Interest was first assessed on state loans by the Omnibus Budget Reconciliation Act of 1981. This charge was made on new loans after April 1, 1982, at a rate equal to the average interest rate paid on federal securities--but not to exceed 10 percent. Interest due in any year after 1982, however, could be paid by a state in four annual installments, according to provisions of TEFRA, if the state's IUR was at least 7.5 percent during the first six months of the preceding year.

The Social Security Amendments of 1983 further amended these loan provisions by allowing interest to be paid in five annual installments if a state meets certain conditions. The amendments also allowed states to delay for up to nine months the payment of interest in any year in which the average total unemployment rate was at least 13.5 percent.

APPENDIX B. SENSITIVITY OF UI OUTLAYS AND REVENUES TO ECONOMIC CONDITIONS

This appendix presents details of the analysis of the sensitivity of Unemployment Insurance (UI) outlays and revenues to future economic conditions given in Chapter III.

ECONOMIC ASSUMPTIONS

Three sets of economic assumptions are considered in Chapter III, including the CBO baseline projection and high- and low-growth alternatives as formulated in February 1983 (see Table B-1). The CBO baseline projection assumed a modest recovery from the recent recession, with inflation of less than 5 percent annually and joblessness declining from 9.8 percent in calendar year 1984 to 7.5 percent in 1988. 1/ Of the two alternative economic paths, one assumed higher real growth and a more rapid decline in unemployment, but somewhat greater inflation. The other path showed a very weak recovery with extremely high unemployment, but with more rapidly declining inflation.

UI OUTLAY AND REVENUE ESTIMATES

Table B-2 presents state and federal UI outlay and revenue estimates based on the CBO high- and low-growth economic assumptions. (Table 9 in Chapter III details these estimates for the CBO baseline case.) Both state and federal outlay estimates are lower in the high-growth case than in the low-growth one, primarily because lower joblessness in the high-growth alternative results in fewer UI beneficiaries. While state tax revenues are generally larger the higher is employment, estimated revenues for the 1986-1988 period are larger in the low-growth case than in the high-growth one. This occurs because the deteriorating financial condition of state UI programs in the low-growth scenario results in shifts to higher state tax-rate schedules, which increase estimated tax collections. Finally, federal revenues are larger in the high-growth case than in the low-growth one because of the (simpler) relation between higher employment and inflation and larger payroll tax collections.

---

1. The longer-run economic assumptions for the 1985-1988 period are not an attempt to forecast probable economic conditions for those years, but are noncyclical projections based on what appeared in February to be an attainable average rate of growth.

TABLE B-1. CBO BASELINE AND ALTERNATIVE ECONOMIC ASSUMPTIONS (By calendar year)

	1983	1984	1985	1986	1987	1988
Gross National Product (GNP) in constant (1972) dollars (percent change, year to year)						
High-growth alternative	4.0	6.0	4.2	4.0	4.0	4.0
CBO baseline projection	2.1	4.7	4.1	3.7	3.5	3.5
Low-growth alternative	0.8	3.3	3.3	3.2	3.0	3.0
GNP Price Deflator (percent change, year to year)						
High-growth alternative	4.8	4.9	5.1	4.9	4.8	4.9
CBO baseline projection	4.6	4.7	4.7	4.3	3.9	3.8
Low-growth alternative	4.5	4.4	4.4	3.9	3.5	3.2
Unemployment Rate (percent, annual average)						
High-growth alternative	9.9	8.5	7.7	7.0	6.4	6.0
CBO baseline projection	10.6	9.8	9.0	8.4	8.0	7.5
Low-growth alternative	11.2	10.9	10.3	9.8	9.4	9.0

SOURCE: Congressional Budget Office, The Outlook for Economic Recovery (February 1983).

TABLE B-2. ESTIMATED STATE AND FEDERAL UI OUTLAYS AND REVENUE UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (In billions of dollars)

Fiscal Year	State Programs			Federal Program		
	Outlays	Payroll Tax Revenue	Revenue Less Outlays	Outlays	Payroll Tax Revenue	Revenue Less Outlays
High-Growth Alternative						
1983	22.5	15.2	-7.3	3.9	4.5	0.6
1984	18.8	19.1	0.3	3.6	5.3	1.7
1985	18.2	22.7	4.5	3.0	6.1	3.1
1986	17.6	24.5	6.9	3.0	7.9	4.9
1987	17.0	25.1	8.1	3.1	7.4	4.3
1988	16.3	25.3	9.0	3.2	8.1	4.9
Low-Growth Alternative						
1983	25.8	14.9	-10.9	4.5	4.4	-0.1
1984	24.8	18.4	-6.4	4.5	5.1	0.6
1985	24.5	22.5	-2.0	3.6	5.8	2.2
1986	24.4	25.9	1.5	3.5	7.6	4.1
1987	24.3	28.0	3.7	3.5	7.0	3.5
1988	24.0	29.4	5.4	3.6	7.7	4.1

SOURCE: Congressional Budget Office (February 1983).