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Unemployment Insurance in a Diminishing Economy: Recent Trends in the Southern Legislative Conference States

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A Special Series Report
of the
Southern Legislative Conference

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Unemployment Insurance in a Diminishing Economy: Recent Trends in the Southern Legislative Conference (SLC) States

Introduction

On November 26, 2001, the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER), the arbiter of key economic events in the nation, announced that business activity in the United States peaked in March 2001.* While a peak marks the end of an expansion and the beginning of a recession, the March 2001 date remained very significant for the following reason: the expansion that began in March 1991 had extended for an entire decade, the longest in the history of the nation. Yet, the NBER's proclamation only confirmed what was readily apparent to practically the entire country: the American economy was contracting and posing wrenching choices to citizens, entire communities and regions, large corporations and small businesses and all levels of governments (federal, state and local). While the American economy was already in reverse gear, the September 11 terrorist attacks only served to hasten this downward spiral with devastating blows being delivered to consumer confidence and, consequently, consumer spending.

By the end of 2001, the U.S. economy was retracting when measured against a number of important criteria. For instance, the U.S. Department of Commerce noted that growth in the nation's gross domestic product (GDP) amounted to a meager 1.2 percent in 2001; a startling difference from the 4.1 percent growth levels achieved both in 1999 and in 2000 and the 8.3 percent growth rate attained for the fourth quarter of 1999.¹ While the economy shrank 1.3 percent in the third quarter of 2001, it did spring back to grow by 1.7 percent in the final quarter of the year.² On the employment front, the nation's unemployment rate soared to 5.8 percent by December 2001

* U.S. Treasury Secretary Paul O'Neill disputes the NBER's stance that the U.S. economy experienced a recession in 2001. On March 5, 2002, Secretary O'Neill stated that "[I]t seems quite clear now that our economy never suffered a recession" ("O'Neill Says U.S. Did Not Suffer Recession in 2001," *The Washington Post*, March 5, 2002). The NBER defines a recession as a "significant decline in activity spread across the economy, lasting more than a few months, visible in industrial production, employment, real income, and wholesale-retail trade" (www.nber.org).

(with the manufacturing sector losing 1.5 million jobs since July 2000),³ a significant increase from its most recent low of 3.9 percent in October 2000.⁴ Fortunately, inflationary trends in the country were largely invisible with the prices of gross domestic purchases only increasing by 1.7 percent in 2001 (after increasing by 2.6 percent in 2000).⁵

Further compounding this grim fiscal picture were the budget woes confronting the federal government and almost all state governments. At the federal level, the nonpartisan Congressional Budget Office (CBO) revealed in late January 2002 that the federal government's cumulative surplus between fiscal years 2002 and 2011 would fall to \$1.6 trillion from the \$5.6 trillion estimated in January 2001, a precipitous drop of \$4 trillion.⁶ The CBO traced some two-thirds of this decline to legislative actions including The Economic Growth and Tax Reconciliation Act enacted in June 2001, additional discretionary spending and the higher cost of paying interest on the increasing federal debt. Further roiling the federal budget situation is the analysis that tax revenue currently is flowing in at substantially lower than expected levels, despite the improving economy, leaving the real possibility that the current year budget deficit could very likely reach \$150 billion for the fiscal year ending September 30, 2002 (fiscal year 2002).⁷ (In the prior fiscal year, the federal budget recorded a surplus of \$127 billion, the second largest ever.) The director of the nonpartisan CBO, in mid-June 2002, blamed the worsening budget picture on an equal mix of rising spending, declining revenue and the added interest the government would have to pay to cover the resulting extra borrowing.

In addition, a number of recent actions at the federal level intensified the withering assault currently being directed at state finances by the souring economy. Specifically, the phasing down and eventual elimination of the federal estate tax; reduced federal spending at six of the 14 Cabinet departments for the proposed federal year 2003 budget with the U.S. Department of Transportation seeing a 28 percent drop compared to the previous year; reduced Medicaid spending with lower payments to public hospitals and the federal government staving off state efforts to secure additional federal money to finance health care for the indigent; and the \$14.7 billion loss (over three years) states will experience as a result of the bonus depreciation provisions of the Job Creation and Worker Assistance Act of 2002 ("economic stimulus package") signed into law by the president on March 9, 2002. Although intended to ameliorate the current situation, these actions contain significant negative fiscal consequences for states.

At the state level, revenue growth continues to be sluggish and, of the 39 states that revised their fiscal year 2002 revenue forecasts, 24 reported that revenues were failing to meet even the revised levels at the end of March 2002.⁸ Nationally, while the fiscal year 2002 cumulative budget shortfall for states is estimated to be \$27 billion (compared to original budgets), six states reported current year fiscal year budget shortfalls in excess of 10 percent, and 17 states reported gaps in excess of 5 percent. Furthermore, a May 2002 survey of 41 states with a broad-based personal income tax revealed that total personal income tax collections in January-April 2002 were 14 percent (about \$14.7 billion) below the level of a year ago.⁹ In addition, estimated payments received in the first quarter of 2002, generally considered a sound barometer of expected receipts in the year ahead, fell behind nearly 27 percent compared to the same period last year. Some specific examples illustrate the gravity of the fiscal position of states..

- ▶ For instance, on May 1, 2002, legislative leaders in North Carolina announced that the budget shortfall in fiscal year 2002 could reach \$1.6 billion, some \$300 million more than the worst case scenario

drawn up in February 2002.¹⁰ While April 2002 tax payments were much lower than expected, the state now tussles with the sharpest revenue decline in more than 50 years. The ripple effects of this shortfall for the upcoming fiscal year, 2003, beginning on July 1 remain immense, and analysts now expect next year's gap between expenditures and revenues to be at least \$2 billion. Even though state agencies already have been asked to slash their budgets for the upcoming fiscal year, the larger shortfall will most probably heighten pressure for additional cuts.

- ▶ In Mississippi, for the second consecutive year, Governor Ronnie Musgrove ordered state agencies not to spend all of their funds for the first half of fiscal year 2003 as a precaution against sluggish tax collections.¹¹ If agencies spend only 45 percent of their budgets in the first six months of the upcoming fiscal year (July through December 2002), the state would realize \$175 million in savings. In addition, Medicaid, which serves about 650,000 Mississippians, faces a \$120 million budget shortfall for fiscal year 2003 beginning July 1, 2002.¹²

- ▶ After tussling unsuccessfully for three years to reform its tax structure, the Tennessee General Assembly is making a concerted effort to reach consensus on an adequate tax plan to fund its budget in the long term. For fiscal year 2002, the state faces a shortfall of \$475 million and for fiscal year 2003, lawmakers need to find \$877 million to operate at the same level of services as this year. They would need \$1.4 billion to fund the governor's proposed budget, which includes raises for state workers and teachers, a new reading and pre-kindergarten initiative, and other new programs.¹³

- ▶ Analysts contend that Maryland Governor Glendening's fiscal year 2003 budget relied too much on one-time funding measures.¹⁴ Since general fund revenues are expected to be almost \$1 billion less than expenditures, the governor proposed using a portion of the state's reserves (\$800 million of the \$1.3 billion in reserves and \$500 million to maintain the state's AAA bond rating, the minimum amount necessary), transferring, reducing or shifting funds from a number of state trust funds and delaying for a year the final 2 percent of a phased-in 10 percent income tax cut, a measure that would generate about \$175 million in revenue. The General Assembly did not support the governor's proposal to delay phasing in the income tax cut.

- ▶ A number of states outside the SLC face even more intractable fiscal woes. Governor George Pataki of New York announced that the twin forces of the recession and the terrorist attacks had devastated his state's tax revenues, leaving the state with an estimated \$5.5 billion deficit when it began its new fiscal year (2003) on April 1 this year.¹⁵ For the city of New York, bearing the full assault of the September 11 terrorist attack involved eventually losing more jobs in 2001 than previously realized: 132,400 lost jobs, almost 36,000 more than the state's original estimate of 96,500.¹⁶ Consequently, Mayor Michael Bloomberg is proposing \$1.9 billion in cuts amidst a \$5 billion budget deficit.¹⁷

- ▶ In New Jersey, newly-elected Governor James McGreevey announced that the state faces a dismal \$2.8 billion budget shortfall that would entail hundreds of state employee layoffs;

the governor also ordered all state agencies to cut spending by 5 percent.¹⁸ In Connecticut, 10 straight years of budget surpluses will come to an end as Governor John Rowland warned of a \$350 million budget shortfall for the current fiscal year; consequently, the governor has suggested that the state might have to layoff employees and raise its cigarette tax.¹⁹ Continuing the litany of states that face major fiscal shortfalls, California, the world's fifth largest economy, faces an unprecedented gap of almost \$24 billion.²⁰

Notwithstanding the emergence of a nascent economic recovery in the early months of 2002—the latest U.S. Department of Commerce data indicates that real GDP increased at an annual rate of 6.1 percent in the first quarter of 2002, the strongest showing in more than two years—and the fact that the 2001 recession was a mild one, the tens of thousands of Americans who lost jobs due to the shrinking economy and September 11 terror attacks often look to their state unemployment insurance program for immediate assistance.²¹ The unemployment insurance system often is termed the “first line of defense” during the onset of a recession since it provides basic income support to laid off workers which in turn serves to boost and stabilize the economy as these recipients spend these benefits for essentials. Yet, as more and more layoffs occur across the country, and an increasing number of these laid off workers seek unemployment insurance benefits, the pressures confronting state unemployment trust funds remain significant.

In fact, analysts report that despite the decade long economic boom with record low unemployment levels across the country, “unemployment trust funds in a dozen or more states are seriously underfunded.”²² Consequently, states have been forced to adapt quickly to the added demands on their unemployment insurance funds and have borrowed from the federal government, hiked taxes or heightened eligibility criteria in order to continue payments to laid off workers. For example, in early February 2002, it was announced that Texas planned to seek between \$800 million and \$1 billion from the U.S. Department of Labor to supplement its nearly depleted unemployment insurance fund. Texas intends to repay this loan (and interest) by doubling unemployment taxes paid by employers.²³ New York's unemployment insurance fund also was about to evaporate, and policymakers indicated they would increase payroll taxes by \$300 million a year alongside borrowing about \$350 million a month from the federal government.²⁴

The objective of this *Special Series Report* is to demonstrate how the 16 states in The Council of State Governments' Southern Legislative Conference (SLC)²⁵ are dealing with the increasing demands on their state unemployment insurance funds. Given the fact that a growing number of unemployed workers are seeking unemployment benefit assistance, there is widening concern about the continued financial health of these funds. In particular, unemployment funds dipping to dangerous levels in SLC states does not bode well for those workers who continue to remain unemployed. In an effort to provide the appropriate backdrop for this analysis, the report assesses recent trends in the unemployment picture in the SLC states and analyzes a range of criteria related to the unemployment insurance program in the states. The report also focuses on such issues as the origins of the program, the critical role played by the federal government in the program's administration, funding levels in the states, measures of solvency, recent trends, reciprocity rates, i.e., the percentage of unemployed persons collecting benefits, and other relevant material.

National and SLC State Unemployment Trends in Recent Years

The unemployment rate, regardless of whether it is at the national, state or local level, remains one of the most significant and closely watched economic indicators. Policymakers carefully monitor the performance of the unemployment rate so as to initiate the appropriate policy responses and minimize the negative effects of a high unemployment rate on their respective economies. Consequently, legislators, businesses and investors, among others, routinely seek details on the monthly unemployment figures, released by the U.S. Department of Labor's Bureau of Labor Statistics, to gauge the state of their economies. While the unemployment rate is the percentage of people in the labor force without jobs but looking for work, economists contend that a certain level of unemployment is inevitable. Yet, economies achieve a higher level of productivity when all of their resources and production inputs, especially labor, are deployed and utilized at an optimal level.

Economists teach that there is a natural rate of unemployment, or Non-Accelerating Inflation Rate of Unemployment (NAIRU), a rate at which if unemployment falls below and output grows above its long-term potential rate, inflation starts to increase. This is due to bottlenecks in production, capacity limits and tight labor markets causing workers to require higher wages and firms to increase price as demand and costs increase. Even though most economists agree that inflation might eventually increase if the economy grows above its potential rate, there is less agreement on the actual NAIRU. Conventional wisdom in the field maintains that the long-term potential growth rate of the U.S. economy is about 2.5 percent and that the NAIRU hovers in the 5.5 percent to 6 percent range. Yet, the performance of the U.S. economy for a good portion of the 1990s has defied some of these conventional economic truisms as the economy grew at more than 2.5 percent, the national unemployment rate hovered at about 4 percent and the rate of inflation was less than 3 percent. Consequently, experts have been forced to deal with this strange confluence of good economic reports by querying whether the performance of the economy in the 1990s was due

to luck; or favorable supply shocks; structural changes in labor and capital markets including the diminishing of trade unions, competitive pricing conditions, the continuing openness of the U.S. economy to world trade and competition; whether it was due to significant productivity enhancements, brought on by stunning technological advancements.

In delving into the specifics associated with the nation's employment trends in the past decade, several broad trends are discernible. Even though the U.S. economy dipped into recession in the very early 1990s, economic trends rebounded to produce the longest running expansion in the nation's history by the end of the decade. At the conclusion of the 1990s, non-farm payroll employment increased by nearly 21 million workers.²⁶ The advent of new technology brought about major advancements in new job creation even though there were some negative effects. In export-sensitive industries, a cyclical pattern was evident with employment levels climbing throughout the decade, except during the 1990-91 recession and marginally during the 1997-98 East Asian economic downturn. Also, early in the decade, reduced defense spending and base closings resulted in job losses in the defense-related industries. Construction and related industries provided a major boost to overall employment levels soon after the 1990-91 recession and continues unabated even during the current economic slowdown. Another major employment growth area was technology, which saw unprecedented hiring levels (and capital investments) as businesses sought to transform and heighten efficiency in their operations. These substantial capital and labor investments continue to pay off as the U.S. economy begins its recovery, albeit subdued, process. As noted by Federal Reserve Board Chairman Alan Greenspan,

“ . . . the substantial improvement in the access of business decision-makers to real-time information has played a key role [in the economy's current recovery]. . . Today, businesses have large quantities of data available virtually in real time. As a consequence, they address and resolve economic imbalances far more rapidly than in the past.”²⁷

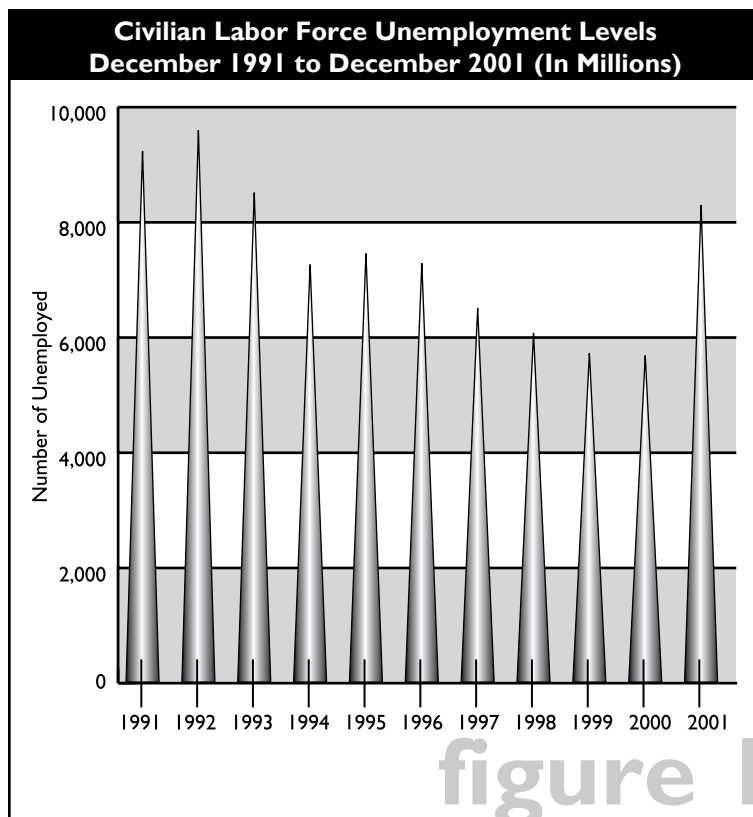
During the 1990s, private service-producing industries accounted for nearly 90 percent of the job growth and increased their share of total non-farm employment by more than 4 percentage points. Similarly, all major industry divisions within the service-producing sector added workers and growth was particularly strong in the services division. Employment in the goods-producing industries rose nominally, as losses in manufacturing and mining were almost offset by gains in construction.

The following tables provide information on employment and unemployment levels for the U.S. economy at large. Table 1 indicates employment levels for the civilian labor force (16 years and older) for the ten-year period 1991 (December) to 2001 (December) and the percentage difference from year to year. The largest increase in the nation's workforce in the last 10 years occurred between 1993 and 1994, when total civilian employment levels expanded by 2.7 percent. In contrast, at the other end of the spectrum, between 2000 and 2001, the nation's workforce declined by 1.3 percent, a clear indication of the onset of recessionary conditions across the country.

U.S. Employment Levels (In Millions) and Yearly Change December 1991 to December 2001		
Year	Employment Level	Yearly % Change
1991	117,466	N/A
1992	118,997	1.3%
1993	121,464	2.1%
1994	124,721	2.7%
1995	125,088	0.3%
1996	127,860	2.2%
1997	130,679	2.2%
1998	132,577	1.5%
1999	134,513	1.5%
2000	135,888	1.0%
2001	134,055	-1.3%

Source: U.S. Department of Labor, Bureau of Labor Statistics

It also is appropriate to review the converse scenario, the level of unemployment among the civilian labor force 16 years and older. This information is presented in Figure 1.



Source: U.S. Department of Labor, Bureau of Labor Statistics

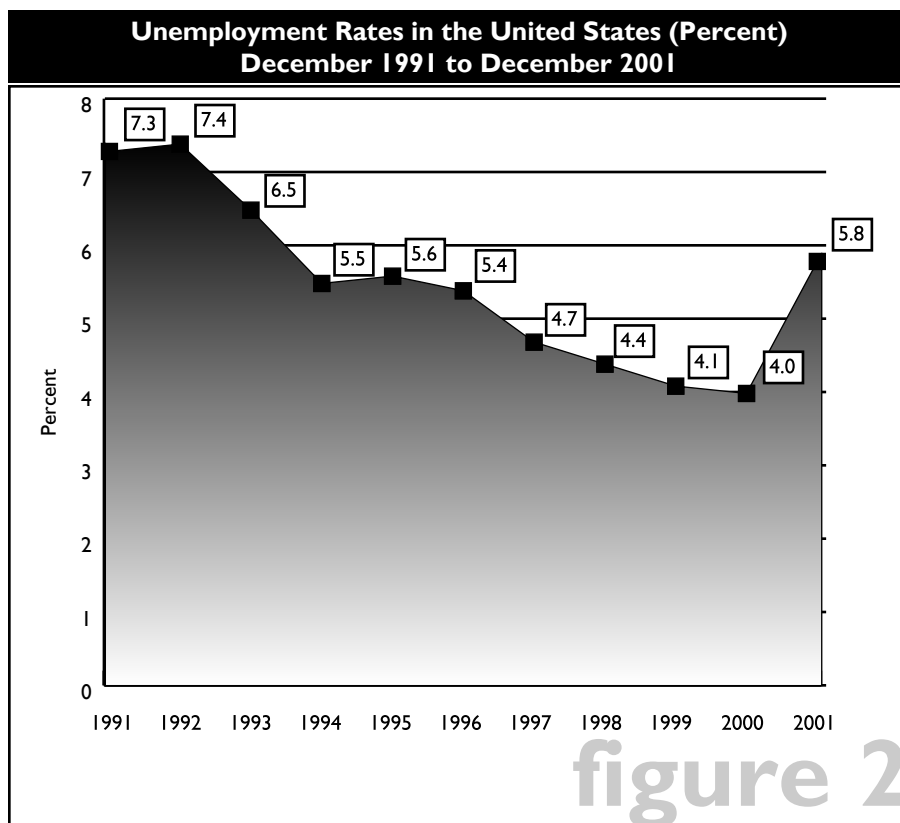
A further elaboration of the information in Figure 1 is contained in Table 2 which demonstrates actual unemployment levels alongside the percentage difference from year to year between December 1991 and December 2001.

U.S. Unemployment Levels (In Millions) and Yearly Change December 1991 to December 2001		
Year	Unemployment Level	Yearly % Change
1991	9,198	N/A
1992	9,557	3.9%
1993	8,477	-11.3%
1994	7,230	-14.7%
1995	7,423	2.7%
1996	7,253	-2.3%
1997	6,476	-10.7%
1998	6,047	-6.6%
1999	5,700	-5.7%
2000	5,656	-0.8%
2001	8,259	46.0%

Source: U.S. Department of Labor, Bureau of Labor Statistics

As indicated in Table 2, a majority of the years in the past decade have seen a decline in the number of unemployed persons in the United States. As expected, the declines were more significant in certain years than others with the sharpest decline being experienced in 1994 (14.7 percent). Similarly, there were double-digit declines experienced in 1993 and 1997 (11.3 percent and 10.7 percent, respectively). In contrast, the rolls of the unemployed climbed markedly in 2001 when the United States experienced a 46 percent increase in unemployment numbers.

A review of the nation's unemployment rate, by percentage, remains appropriate and this is illustrated in Figure 2.



Source: U.S. Department of Labor, Bureau of Labor Statistics

As indicated in Figure 2, the unemployment rate in the United States declined steadily between 1991 and 2000 before rising significantly up in 2001. From a high of 7.4 percent in 1992, the rate declined to an impressive 4 percent in 2000 before beginning its ascent in the following year. The record low unemployment levels that prevailed in the mid to late 1990s were one of the stellar signs of the most significant economic expansion in the history of the United States.

Just as national unemployment rates hovered at record-low rates for a number of years during the past decade, a majority of the individual states enjoyed low unemployment rates, too. In particular, a number of the states comprising The Council of State Governments' Southern Legislative Conference (SLC) were some of the fastest growing in the country and, consequently, displayed some of the lowest unemployment rates. Table 3 depicts some of this information with the historical highs and lows for the specific month in the SLC states.

Unemployment Rates: Historical Highs and Lows in the SLC				
SLC State	Historical High		Historical Low	
	Date	Rate	Date	Rate
Alabama	Dec. 1982	15.6	Aug. 1998	4.1
Arkansas	Feb. 1983	10.5	Dec. 2000	4.1
Florida	Mar. 1983	9.7	Aug. 2000	3.5
Georgia	Dec. 1982	8.5	Dec. 2000	3.3
Kentucky	Dec. 1982	12.6	Feb. 2001	4.0
Louisiana	Sep. 1986	13.6	Aug. 2001	4.6
Maryland	Jan. 1982	8.7	Aug. 1999	3.4
Mississippi	Feb. 1983	13.8	June 2001	4.3
Missouri	Apr. 1983	10.6	Oct. 1999	3.1
North Carolina	Feb. 1983	10.0	June 1999	3.0
Oklahoma	May 1983	9.7	Jan. 2001	2.7
South Carolina	Feb. 1983	11.7	Oct. 2000	3.2
Tennessee	Dec. 1982	12.8	Mar. 2000	3.7
Texas	Oct. 1986	9.4	Dec. 2000	3.7
Virginia	Mar. 1982	8.0	Jan. 2001	2.1
West Virginia	Feb. 1983	19.5	Oct. 2001	4.4

Source: U.S. Department of Labor, Bureau of Labor Statistics

As demonstrated in Table 3, among the SLC states, the two with the lowest unemployment rate in recent times were Virginia (2.1 percent in January 2001) and Oklahoma (2.7 percent in January 2001). In contrast, West Virginia's 19.5 percent and Alabama's 15.6 percent in February 1983 and December 1982, respectively, were the two highest percentages for SLC states in the recent past.

Alongside historical highs and lows for the unemployment rates in the SLC states, a review of the annual unemployment rate in the last 30 years for the SLC states remains useful. Tables 4 and 5 provide this information, first for every five years between 1970 and 2000, and then, additional information for the latest year available, 2001.

Annual Unemployment Rate in the SLC States 1970 to 2000 (Percent)							
SLC State	1970	1975	1980	1985	1990	1995	2000
Alabama	5.9	7.7	8.8	8.9	6.9	6.3	4.6
Arkansas	N/A	N/A	7.6	8.7	7.0	4.9	4.4
Florida	4.3	10.7	5.9	6.0	6.0	5.5	3.6
Georgia	4.1	8.6	6.4	6.5	5.5	4.9	3.7
Kentucky	4.4	7.3	8.0	9.5	5.9	5.4	4.1
Louisiana	6.7	7.4	6.7	11.5	6.3	6.9	5.5
Maryland	3.4	6.9	6.5	4.6	4.7	5.1	3.9
Mississippi	N/A	N/A	7.5	10.3	7.6	6.1	5.7
Missouri	3.3	6.9	7.2	6.4	5.8	4.8	3.5
North Carolina	4.3	8.6	6.6	5.4	4.2	4.3	3.6
Oklahoma	4.0	7.2	4.8	7.1	5.7	4.7	3.0
South Carolina	4.8	8.7	6.9	6.8	4.8	5.1	3.9
Tennessee	4.3	8.3	7.3	8.0	5.3	5.2	3.9
Texas	4.4	5.6	5.2	7.0	6.3	6.0	4.2
Virginia	3.4	6.4	5.0	5.6	4.3	4.5	2.2
West Virginia	N/A	N/A	9.4	13.0	8.4	7.9	5.5
SLC Average	4.4	7.7	6.9	7.8	5.9	5.5	4.1
U.S. Rate	6.1	8.2	7.2	7.0	6.3	5.6	4.0

Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics

Notes: The SLC averages for 1970 and 1975 represent 13 of the 16 states; the U.S. rate represents the rate in December of the specific year

It appears that the SLC states fared better than the national averages in the 1970s and 1990s and fared worse than the national averages in the 1980s. In 2000, the difference between the SLC states and the national average was marginal. Yet, as indicated previously, during the impressive economic boom of the 1990s, a number of SLC states were among the fastest growing in the nation, and this is amply reflected in the low unemployment rates evinced in these states in 2000. For instance, Virginia's unemployment rate was a record low 2.2 percent in 2000, while an additional eight SLC states (Florida, Georgia, Maryland, Missouri, North Carolina, Oklahoma, South Carolina and Tennessee) maintained unemployment rates between 3 percent and 3.9 percent during this year. Furthermore, only three SLC states had unemployment rates between 5 percent and 5.9 percent (Louisiana, Mississippi and West Virginia), while the remaining four SLC states (Alabama, Arkansas, Kentucky and Texas) all enjoyed unemployment rates between 4 percent and 4.9 percent.

For the latest full year available, 2001, Table 5 documents a range of employment and unemployment criteria in the SLC states. This includes data on the civilian (non-institutional) population, extent of the labor force, number employed and unemployed, and the percent of the labor force employed and unemployed, i.e., the unemployment rate.

Selected Employment and Unemployment Criteria in the SLC States 2001							
SLC State	Civilian Population	Labor Force		Employed		Unemployed	
		Number	% of Pop	Number	% of Labor Force	Number	% of Labor Force
Alabama	3,418,000	2,147,552	63%	2,033,192	94.7%	114,360	5.3%
Arkansas	1,999,000	1,226,661	61%	1,163,865	94.9%	62,796	5.1%
Florida	12,144,000	7,673,565	63%	7,308,900	95.2%	364,665	4.8%
Georgia	6,077,000	4,131,569	68%	3,966,348	96.0%	165,221	4.0%
Kentucky	3,110,000	1,967,572	63%	1,859,668	94.5%	107,904	5.5%
Louisiana	3,299,000	2,050,323	62%	1,927,933	94.0%	122,390	6.0%
Maryland	4,057,000	2,837,433	70%	2,721,724	95.9%	115,709	4.1%
Mississippi	2,100,000	1,296,193	62%	1,224,651	94.5%	71,542	5.5%
Missouri	4,200,000	2,970,118	71%	2,830,403	95.3%	139,715	4.7%
North Carolina	5,863,000	3,994,789	68%	3,773,489	94.5%	221,300	5.5%
Oklahoma	2,576,000	1,665,427	65%	1,601,921	96.2%	63,506	3.8%
South Carolina	3,072,000	1,949,210	63%	1,843,393	94.6%	105,817	5.4%
Tennessee	4,320,000	2,817,654	65%	2,691,676	95.5%	125,978	4.5%
Texas	15,414,000	10,462,712	68%	9,955,270	95.2%	507,442	4.9%
Virginia	5,374,000	3,675,345	68%	3,548,047	96.5%	127,298	3.5%
West Virginia	1,444,000	833,315	58%	792,367	95.1%	40,948	4.9%
SLC Average	N/A	N/A	65%	N/A	95.2%	N/A	4.8%

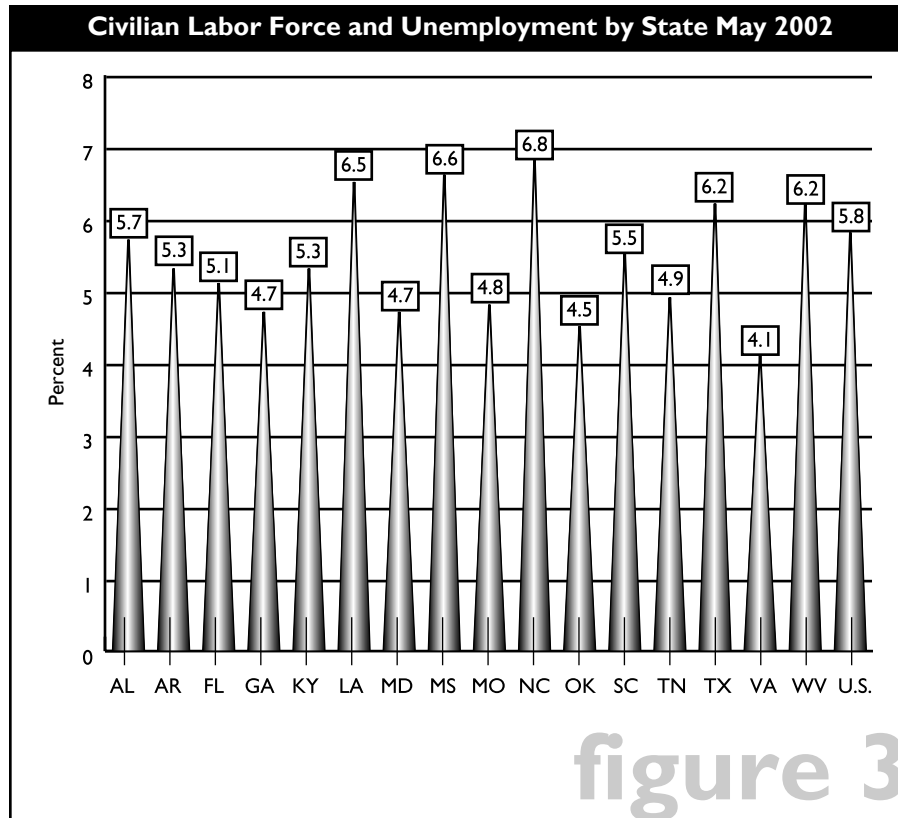
Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics

As demonstrated in Table 5, a number of interesting developments may be gleaned from reviewing the employment criteria listed. In terms of averages, in 2001, some 65 percent of the civilian (non-institutional) population belonged to the labor force in the SLC states, a little more than 95 percent of this labor force (95.2 percent to be exact) were employed, and just under 5 percent (4.8 percent precisely) were unemployed during this period. In light of the fact that the U.S. Department of Labor reported that in December 2001, the national unemployment rate stood at 5.8 percent, the 4.8 percent rate reported as the average for the SLC states remains noteworthy.²⁸

Several additional trends maybe extracted from Table 5 as well. In terms of individual SLC state performances in the area during 2001, the following state performances remain relevant. Missouri and Maryland (71 percent and 70 percent) were the SLC states with the highest percentage of their civilian populations in the labor force. At other end of the spectrum in this category was West Virginia, with only 58 percent of its civilian population in the labor force. Importantly, the remaining 13 SLC states all maintained between 61 percent and 68 percent of their civilian populations in the labor force. Data on the breakdown of employed versus unemployed members of the labor force remain another useful item in Table 5. In this category, several SLC states ranked very high with Virginia (96.5 percent), Oklahoma (96.2 percent) and Georgia (96 percent) leading the

way. The converse of this category is reflected by the SLC states with the highest unemployment rates in 2001—Louisiana (6 percent) and Kentucky, Mississippi and North Carolina (all at 5.5 percent).

Finally, on the employment front, it is appropriate to review state-specific information on the civilian unemployment rate in the SLC states for May 2002, the latest month available at publication of this report, and this information is provided in Figure 3.



Source: U.S. Department of Labor, Bureau of Labor Statistics

As demonstrated in Figure 3, the unemployment rates in the SLC states in May 2002, remain much higher than they were in the latter part of the 1990s, with North Carolina and Mississippi both securing the highest rates (6.8 percent and 6.6 percent, respectively). In contrast, Virginia with 4.1 percent, had the lowest rate among the SLC states during this same period. In addition, except for Georgia (4.7 percent), Maryland (4.7 percent), Missouri (4.8 percent), Oklahoma (4.5 percent) and Tennessee (4.9 percent), the remaining 10 SLC states all had unemployment rates greater than 5 percent during May 2002.

Even though the latest GDP results for the first quarter of 2002 indicate an increase at an annual rate of 6.1 percent, the 5.8 percent unemployment rate for May 2002 was 1.9 percentage points above its most recent low of 3.9 percent in October 2000, and the number of unemployed persons was 2.8 million higher.²⁹ Similarly, work productivity data for the first quarter of 2002 shot up at an annualized rate of 8.6 percent, the best performance in nearly 19 years.³⁰ Both these facts in conjunction reveal that the impressive GDP growth and worker productivity numbers came at a price: higher unemployment. In essence, businesses responded to the lingering effects of the 2001 recession by significantly slashing payrolls to preserve profit margins. In sum, the American economy performed better than expected with fewer workers, the reason for the increased productivity levels.

Unemployment Insurance in the U.S. and Its Impact on the SLC States

After months of acrimonious debate and political jousting, Congress finally submitted The Job Creation and Workers Assistance Act of 2002 to President Bush for signature in early March. A major component of this legislation included granting a 13-week extension of unemployed benefits to workers who exhausted their regular benefits, i.e., 26 weeks, and who live in a state with an unemployment rate of at least 4 percent. The extended unemployment benefit coverage under this legislation amounts to \$8 billion for the entire country and a number of SLC states stand to gain substantial injections into their unemployment insurance trust balances. For instance, Texas' increase will amount to \$594 million and boost its balance by 135 percent; North Carolina's balance will expand by 38 percent with the additional \$240 million the state is slated to receive.³¹ As a result, the potential for eligible unemployed workers in high-unemployment states to receive up to a total of 39 weeks in unemployment insurance propelled the topic of unemployment insurance to the forefront as both governments and workers continue to wrestle with mitigating the effects of a weak economy.

Given its growing prominence in contemporary affairs, what are the basic tenets of unemployment insurance in the United States? The goal of this section is to respond to this and myriad related questions including the history of the plan; the objectives of the plan; the essence of the Reed Act and the role of the federal government in implementing the plan for the states; the solvency of the unemployment trust fund balances in the different states, including such measures as trust fund reserves (or balances), number of months states can continue to make unemployment benefit payments (referred to as the AHCM, the Average High Cost Multiple), level of reserves compared with the benefit outlays, the trust fund balances compared to payroll contributions and reciprocity rates among SLC states (the percentage of unemployed persons collecting unemployment benefits); and reference to some broad trends from the last two decades with the reforms initiated in the 1980s (given the impact of the contracting national economy during a portion of that time) and in the 1990s (given the rush to cut taxes

and lower contributions made by employers to the state's unemployment insurance funds during a part of that time).

As noted at the outset of this report, unemployment insurance in the United States pays benefits to qualified workers who are unemployed due to no fault of their own (as determined by law in the individual's state), who are looking for work and who meet other eligibility criteria established by the state. These payments seek to provide temporary financial assistance to unemployed workers so as to enable them to secure an alternate job without incurring major financial hardship. Importantly, these payments are not based on need and are not supposed to replace regular earnings but are paid as a matter of right to assist workers' transition toward new jobs. While each state administers a separate unemployment insurance program, the federal government has clearly delineated laws to help guide these state actions. Consequently, eligibility for unemployment insurance, benefit amounts, the length of time these benefits are available, all are determined by state statute under which unemployment insurance claims are established. While the unemployment insurance program is a joint federal-state effort, in all but three states, benefit funding is based solely on a tax levied on employers. Alaska, New Jersey and Pennsylvania are the only exceptions to this rule and have employee contributions; however, Pennsylvania's employee contribution requirement has been triggered off for several years now.

Unemployment Insurance: A Federal-State Partnership

The history of the unemployment insurance program in the United States may be traced to passage of the 1935 Social Security Act which offered benefits to workers unemployed due to no fault of their own.³² As indicated previously, these unemployment insurance benefits were intended to be the "first line of defense" against the effects of unemployment and to offer laid off workers financial resources to meet essential expenses while they continued their search for work. These unemployment benefits did not intend to replace their former income levels but only serve to tide over unemployed workers while they continued seeking work. While Titles III, IX, XI and XII of the Social Security Act contain the essential provisions of the nation's unemployment insurance program, subsequent legislation included the Federal Unemployment Tax Act of 1970, the Federal-State Extended Unemployment Compensation Act of 1970, the Trade Act of 1974 and the Robert T. Stafford Disaster Relief and Emergency Assistance Amendments of 1988. A number of other pieces of federal legislation authorized the unemployment benefits program.

In terms of the program's logistics, the enacted legislation requires the secretary of the U.S. Department of Labor to furnish each state with funds deemed appropriate by the secretary to ensure the proper and efficient administration of the state's unemployment insurance program during the fiscal year. While the Secretary can only dispense monies to states already appropriated by Congress, as expected, the adequacy of this level of funding has been the topic of nettlesome debate since the program's inception.

While the program was created in 1935, states did not make their first unemployment insurance benefit payments until some years later. Table 6 lists the date (month and year) for which benefits were first paid in the SLC states.

Dates of First Unemployment Insurance Benefits Paid in the SLC States				
January 1938	April 1938	July 1938	December 1938	January 1939
<ul style="list-style-type: none"> • Alabama • Louisiana • Maryland • North Carolina • Tennessee • Texas • Virginia • West Virginia 	<ul style="list-style-type: none"> • Mississippi 	<ul style="list-style-type: none"> • South Carolina 	<ul style="list-style-type: none"> • Oklahoma 	<ul style="list-style-type: none"> • Arkansas • Florida • Georgia • Kentucky • Missouri

table 6

Source: U.S. Department of Labor

From the program's initiation, Congress decided that 100 percent of the state's funding requirements would be met by federal grants. Unlike so many other federal disbursements to the states, there are no "matching" funds that the states have to provide from their budgets. The impetus for the latter move was the following: first, the federal government was concerned that state legislatures would not appropriate sufficient funds to effectively administer the program; second, the federal government wanted to ensure that the states administered their unemployment insurance programs efficiently toward this end (consequently, a number of federal guidelines remain in place for states to continue receiving funds for disbursement to unemployed workers); and third, the federal government sought ensure maximum flexibility in managing the program at the state level. For instance, since most state legislatures are not in session throughout the year, sometimes convening every other year, or for a few months in a year, they would be unable to respond as quickly as the Congress if the need for supplemental appropriations arose during a period of rising unemployment rates.

In spite of this onerous federal funding responsibility, Congress did not establish a clear link between the flow of funds from employer taxes, i.e., Federal Unemployment Tax Act (FUTA) taxes, and the grants made to states. Unemployment insurance benefits are financed through state payroll taxes and paid from state trust fund accounts maintained by the U.S. Treasury. However, the funds collected from employers to finance the program consistently exceeded the grants made to the states by the federal government for disbursement to the unemployed.

In fact, even as far back as in 1952, the federal government had collected as much as \$1 billion more in employer taxes than had been appropriated to the states for administration of the unemployment insurance program. This resulted in the passage by Congress in 1954 of the Reed Act, which stipulated that funds collected from FUTA taxes had to be used for federal and state administration of the program and, if more funds were collected than were needed for this administration, these excess funds should be returned to the states.[†] As further defined in this legislation, when the three federal accounts in the unemployment trust fund (UTF) reached their statutory limit at the end of a federal fiscal year, the excess funds are transferred to the individual state accounts in the UTF. Even though the Balanced Budget Act of 1997 had limited these Reed Act transfers to \$100 million for each of the fiscal years 1999 through 2001 and required that these transfers only pay administrative expenses, the economic stimulus legislation signed into law on March 9, 2002 repealed both these

[†] The Reed Act was named after Congressman Daniel A. Reed, New York, chairman of the House Ways and Means Committee at that time.

restrictions. Consequently, the Treasury Secretary was required to transfer these additional funds to the individual state UTF accounts within 10 days of the enactment of the law.

The additional amounts, transferred to the SLC states as a result of the March 2002 economic stimulus legislation, along with the individual SLC state trust fund balance at the end of December 31, 2001, are presented in Table 7. These federal transfers come as a welcome salve to the severely wounded state fiscal positions.

Reed Act Transfers in the March 9, 2002 Economic Stimulus Legislation (In Millions)				
SLC State	UTF Balance (12/31/2001)	Reed Act Transfer to State	New Balance	
			Amount	% Increase
Alabama	\$324	\$111	\$435	34%
Arkansas	\$179	\$64	\$243	36%
Florida	\$1,761	\$447	\$2,208	25%
Georgia	\$1,542	\$249	\$1,791	16%
Kentucky	\$544	\$104	\$648	19%
Louisiana	\$1,509	\$105	\$1,614	7%
Maryland	\$826	\$143	\$969	17%
Mississippi	\$658	\$65	\$723	10%
Missouri	\$276	\$161	\$437	58%
North Carolina	\$626	\$240	\$866	38%
Oklahoma	\$490	\$81	\$571	17%
South Carolina	\$627	\$108	\$735	17%
Tennessee	\$650	\$162	\$812	25%
Texas	\$440	\$594	\$1,034	135%
Virginia	\$905	\$214	\$1,119	24%
West Virginia	\$240	\$36	\$276	15%
SLC Total	\$11,597	\$2,884	\$14,481	25%
U.S. Total	\$46,537	\$8,000	\$54,703	17%

Source: U.S. Department of Labor

As indicated in Table 7, in general, the SLC states fared better than the United States as a whole in securing these additional unemployment insurance funds. Specifically, the SLC states saw an increase of 25 percent in their UTF balances while, for the nation at large, the improvement was 17 percent. As expected, certain SLC states fared better than others, with Texas experiencing the most significant increase, about 135 percent. This injection of funds into Texas' unemployment insurance trust fund was critically needed as the fund had been seriously depleted. Similarly, Missouri (58 percent), North Carolina (38 percent) and Arkansas (36 percent) all experienced large boosts to their trust fund balance levels. At the other end of the spectrum, the SLC states experiencing the least inflows into their balances were Louisiana (7 percent), Mississippi (10 percent) and West Virginia (15 percent).

Objectives of the Unemployment Insurance Program

The immediate objective of the unemployment insurance program is to enable those currently without work to take care of essential expenditures until they resume employment. The number of unemployed workers collecting unemployment benefits as a percentage of the total unemployed in the United States has hovered between the 30 percent and 40 percent range in the past 22 years; the number rose to about 45 percent during the 1980 recession and dipped to a low of about 29 percent in 1983 before climbing up to about 39 percent during the 1991 recession. At the end of 2000, the percentage of unemployed collecting benefits amounted to about 40 percent.³³ The program often is cited as the “first line of defense” during an economic downturn not only because it provides much needed income support to laid off workers, but also because these unemployment benefits help boost and stabilize the economy as funds are spent on goods and services. In addition, research indicates that laid off workers spend a large proportion of their unemployment insurance benefits within their own communities on essential items, a phenomenon that helps boost their local economies.³⁴ In sum, monies distributed under the unemployment insurance programs accomplish the following valuable twin tasks: assist unemployed workers in meeting essential expenditures and stimulating the local economy during an economic slowdown.

A report written by Marc Baldwin, Ph.D., published by the National Employment Law Project in April 2001, further elaborates on this theme by enumerating four major goals associated with the unemployment insurance program.³⁵ These are:

- The microeconomic goal of providing income for the unemployed workers;
- The macroeconomic goal of a counter-cyclical boost in consumer demand by generating buying power in the economy as these benefits are expended on goods and services;
- The labor market efficiency goal of connecting unemployed workers to job openings; and
- The additional labor market efficiency goal of promoting the retention of skilled employees with a specific employer.

A recent study commissioned by the U.S. Department of Labor noted that over the last five recessions, the unemployment insurance scheme has “mitigated the loss in real GDP by about 15 percent over all the quarters in the recession,” and that the “average peak number of jobs saved was 131,000.” The same study also indicated that each \$1 of unemployment insurance benefits bolstered the nation’s GDP by \$2.15. Following this line of reasoning, it is possible to conclude that the greater number of workers who collect unemployment insurance benefits and the more they recoup in benefits, the greater the impact that the program will have in stimulating a state’s economy.³⁶

The Funding Basics of the Unemployment Insurance Program

The finance structure of the unemployment insurance system comprises multiple parts of which the payroll tax levied on employers to fund state unemployment benefits is the most predominant.³⁷ However, it should be mentioned that there are several other much smaller programs, operated by the U.S. Department of Labor, to support railroad and federal employees, funds to support loans to states with solvency problems in their trust funds, funds to facilitate federal oversight and the half-federal and half-state funded extended-benefit (EB) program. Nevertheless, the central focal point of

the program is the benefits that flow to the states as regular unemployment insurance benefits.

Unemployment insurance, as noted previously, is a joint federal-state program financed by federal and state employer payroll taxes. In general, employers must pay both federal and state unemployment taxes if they pay wages to employees totaling \$1,500, or more, in any quarter of a calendar year or they had at least one employee during any day of a week during 20 weeks in a calendar year, regardless of whether or not the weeks were consecutive. The FUTA authorizes the Internal Revenue Service (IRS) to collect a federal employer tax to fund the different state employment security agencies. Employers pay this tax annually by filing IRS Form 940. While the funds raised under the FUTA pay for administering the unemployment insurance and job service programs in all the states, the FUTA also pays one-half of the cost of extended unemployment benefits (during high unemployment spells) and finances a fund from which states may borrow, if necessary, to pay unemployment benefits.

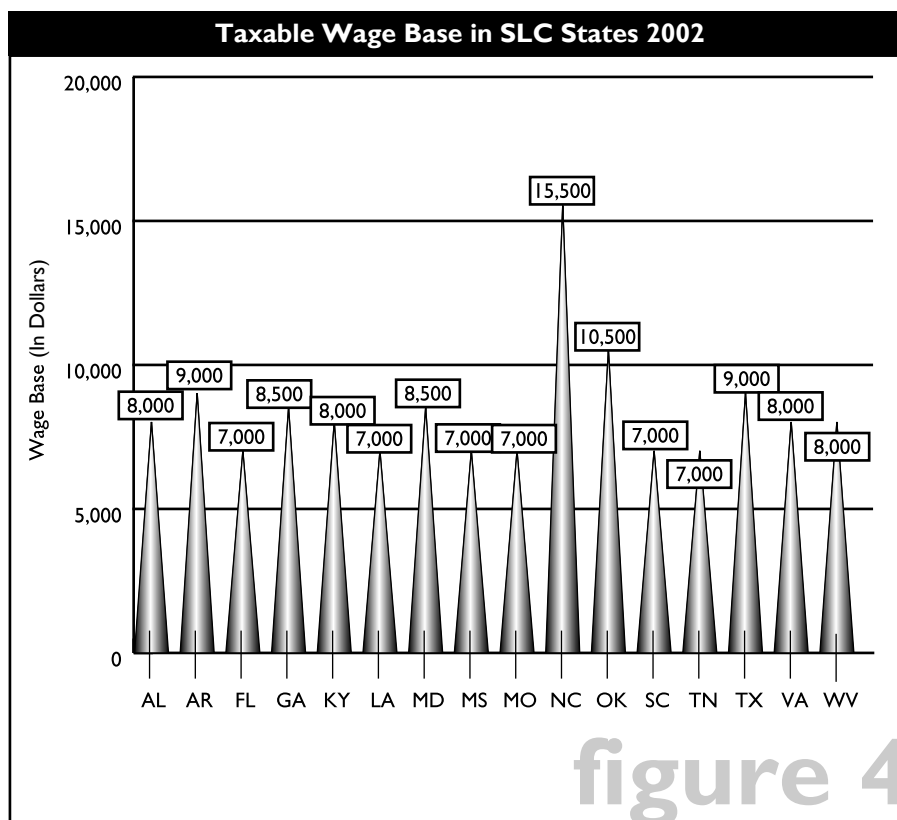
There are two independent payroll taxes, one federal and one state, that fund the country's unemployment insurance system. The federal payroll tax rate is 6.2 percent of taxable wages and the taxable wage base is the first \$7,000 paid in wages to each employee during a calendar year. In addition, employers who pay the state unemployment tax on a timely basis receive an offset credit of up to 5.4 percent regardless of the rate of tax they pay their state. Consequently, the net federal tax rate is 0.8 percent (6.2 percent less 5.4 percent) on the first \$7,000 that each employee earns. This equates to a maximum of \$56 per employee (.008 multiplied by \$7,000). In contrast to a number of taxes such as Social Security and other payroll taxes, the wages that are taxed for federal unemployment insurance purposes are not indexed to inflation. Consequently, the \$7,000 minimum has not been altered by Congress since 1983. At the end of 2001, the FUTA revenues in a federal trust amounted to \$45 billion and are allocated for such uses as the administration of the state unemployment insurance programs, federal extensions in unemployment benefits and for loans to states.

From the state perspective, the state unemployment insurance tax pays solely for the cost of the benefits provided to eligible unemployed workers. While the rate of the state unemployment tax is determined by each state, the taxable wage base, or the amount of each worker's wages that is taxed, is also the state's responsibility. In addition, the rate of the state tax varies from employer to employer. This rate can increase up to a designated point as the employer lays off more workers, i.e., the concept referred to as experience rating.[‡] At the end of 2001, these state funds totaled about \$51.6 billion.

While certain states tax only the first \$7,000 of an employee's income (the current federal wage base), other states stipulate a higher wage base rate. (The average in 2001 was over \$12,000). Several states link their taxable wage base to a fraction of their average state wages so as to ensure that the tax rate would apply to more of a high wage earner's income. For instance, a taxable wage rate of \$7,000 might apply to 100 percent of an agricultural worker's income in comparison to a smaller proportion of a skilled worker in the services or manufacturing sectors. Consequently, this disparity is lowered through higher taxable wage bases.

[‡] Experience rating involves linking tax rates levied on employers to the layoff history of individual employers. It results in charging benefit costs directly to employers who cause the layoffs—by increasing the rate of payroll taxes—as an increasing number of their workers successfully apply for benefits.

Figure 4 provides information on the taxable wage rate in the SLC states in 2002.



Source: American Payroll Association

State unemployment insurance taxes are based on a percentage of the taxable wages an employer pays to the employee. The Federal Unemployment Tax Act mandates that the taxable wage base in each state must at least equal the FUTA wage base rate of \$7,000 per employee even though the wage base in almost four-fifths of the states exceeds the required amount. In this vein, Figure 4 reveals that six of the 16 SLC states operate at the federal base rate of \$7,000. North Carolina's base wage rate in 2002 remains at \$15,500, which is the highest amount in the SLC. Similarly, Oklahoma's \$10,500 is the next highest in the SLC. Except for the aforementioned two states, no other SLC state increased its wage base between 2001 and 2002. In terms of states outside the SLC, a number of Western states such as Hawaii (\$29,300), Washington (\$28,500), Idaho (\$27,600), Alaska (\$26,000) and Oregon (\$25,000) ranked high.

Table 8 provides information on the average unemployment insurance tax rates in 2001 for the SLC states.

Average Unemployment Insurance Tax Rates in the SLC 2001				
SLC State	New Rate	Minimum Rate	Maximum Rate	Average Tax Rate
Alabama	2.7%	0.6%	6.2%	0.4%
Arkansas	2.9%	0.5%	6.4%	0.7%
Florida	2.0%	0	5.4%	0.8%
Georgia	2.7%	0	5.4%	0.1%
Kentucky	2.7%	0	9.0%	0.5%
Louisiana	1.0%*	0.22%	6.2%	0.5%
Maryland	1.0% - 2.3%	0.3%	7.5%	0.4%
Mississippi	2.7%	0.4%	5.4%	0.4%
Missouri	1.0% - 2.7%	0	6.0%	0.4%
North Carolina	1.2%	0	5.7%	0.3%
Oklahoma	1.0%*	0	5.4%	0.1%
South Carolina	2.7%	0.54%	5.4%	0.4%
Tennessee	2.7%	0	10.0%	0.4%
Texas	2.7%	0.27%	6.27%	0.4%
Virginia	2.5%	0	5.4%	0.1%
West Virginia	2.7%	1.5%	8.5%	1.0%

Source: U.S. Department of Labor, Office of Workforce Security (Average tax rates extracted from U.S. Department of Labor, Office of Workforce Security statistics quoted in Emsellem, et al . . .)

* = Depends on rate schedule in effect and/or industry

Focusing on the average tax rate in Table 8, while the average national tax rate for unemployment insurance in the states remains at 0.5 percent, only three SLC states (West Virginia, Florida and Arkansas) had average rates higher than the national average. In addition, except for Kentucky and Louisiana, both at 0.5 percent, all the remaining SLC states were lower than the national average, with Georgia, Oklahoma and Virginia all maintaining an average of 0.1 percent. In sum, in the SLC states, employers in only three states paid more than 0.5 percent of their total wages in unemployment taxes, in two states employers paid 0.5 percent of their total wages in unemployment taxes, and in the remaining 11 states, employers paid less than 0.5 percent of their total wages in unemployment taxes.

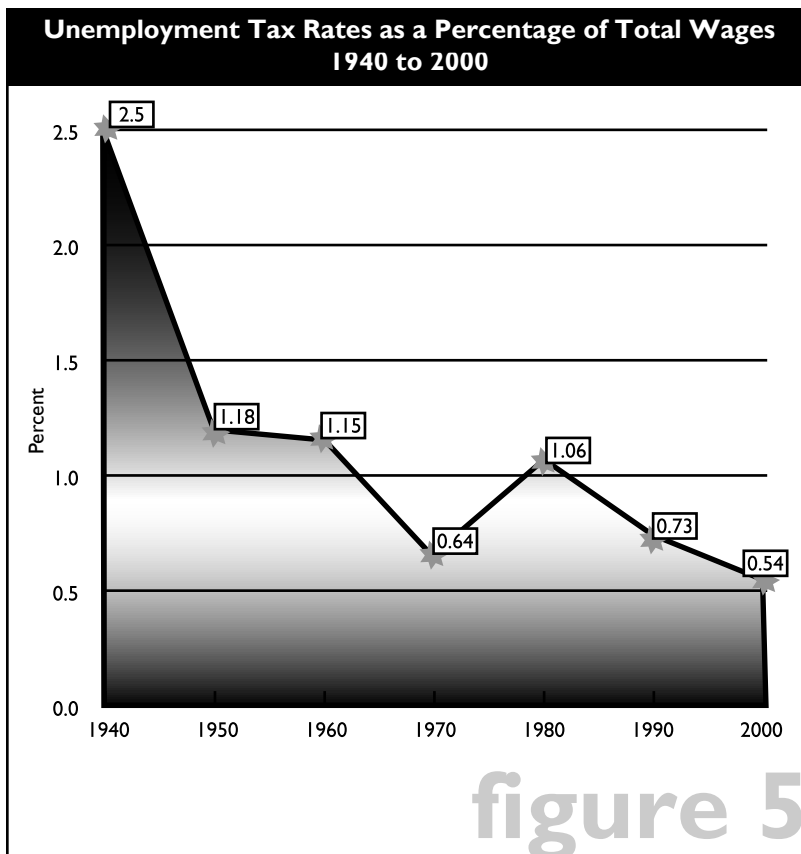
It should be noted that the average tax rate refers to the rate paid by employers after taking into account the concept of experience rating. According to Baldwin, the average national state tax rate in 2001 (0.5 percent), is lower than the rate had been in any year since the data collection on this series began in 1950. For the SLC states, the average tax rate stood at 0.4 percent in 2001.

Among all industrialized countries, the United States is the only economy with an “experience rated” unemployment tax system. The essence of an experienced rated system involves linking tax rates levied on employers to the layoff history of individual employers. The degree of this experience rating system depends on how directly or indirectly a specific employer’s tax rate is connected to the benefits paid out to the

unemployed workers. As elaborated by Baldwin, the impetus behind experience rating involves charging benefit costs directly to employers who cause the layoffs—by increasing the rate of payroll taxes—as an increasing number of their workers successfully apply for benefits. However, the end result remains more complicated because raising payroll taxes on employers during a time of economic lethargy is particularly onerous to employers as this would further accentuate the economic problems faced by these companies. Hence, states try to stave off such negative trends by building up unemployment insurance trust fund reserves and tapping these reserves without having to resort immediately to raising taxes on employers. Also, states have not fully experience rated their unemployment insurance systems either because they do not extract revenue on a precise one-to-one basis from employers who secure unemployment benefits. In addition, states have factored lags into their programs so that taxes are raised not during a recession, but at a point after a bulk of the layoffs have occurred.

Unemployment Insurance Tax Rates and Recent Trends in the SLC States

Alongside the importance of taxable wage bases and tax rates in issues related to the funding of the states' unemployment insurance programs, another important facet of the topic includes a review of unemployment tax rates as a percentage of total wages in the SLC states. The foundation of the American unemployment insurance program has pivoted around building and consolidating trust fund balances during healthy economic times so that states have the capacity to provide unemployment benefits during economic downturns. The ultimate goal of this strategy remains providing financial relief for basic necessities to those eligible unemployed workers and simultaneously stimulating local economies. These objectives are supposed to add to the resiliency of the overall economy in its move from recession and high unemployment toward more stable and sustained growth rates.



Source: U.S. Department of Labor, Office of Workforce Security

As demonstrated in Figure 5, during the past 60 years, unemployment insurance tax rates, as a percentage of total wages, have been declining steadily from a high of 2.5 percent in 1940 to about 0.54 percent in 2000. While the number rose in 1980, it quickly regained its downward trend and currently remains at its lowest level in the history of the program. Given the tenets of experience rating, unemployment insurance tax rates can be expected to rise and fall with the vicissitudes of the economy, i.e., rising soon after a recession before beginning to drop off as the economy gathers momentum and trust fund reserves are amassed.

Yet, since the early 1990s, a fundamental change in this trend occurred on two fronts. First, there was a long-term trend toward lower rates both at the national and state levels. Second, a number of states initiated specific legislative efforts to slash unemployment insurance taxes levied on employers.

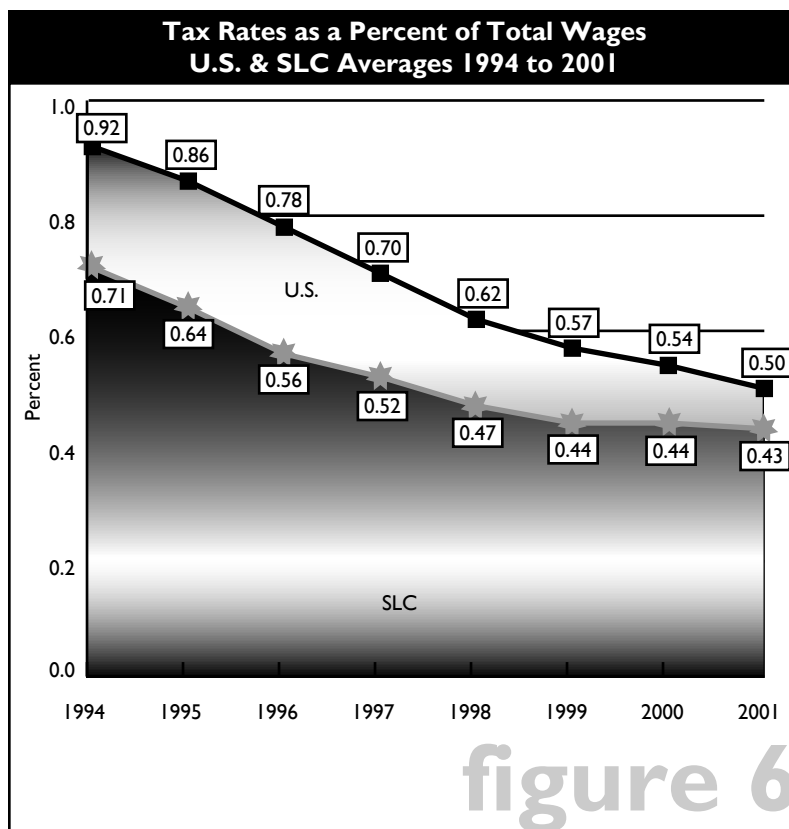
More details substantiating the long-term trend toward lower rates are depicted in Table 9, which provides information on unemployment tax rates in the SLC states as a percentage of total wages between 1994 and 2001.

Unemployment Insurance Tax Rates as a Percentage of Total Wages in the SLC States								
SLC State	1994	1995	1996	1997	1998	1999	2000	2001
Alabama	0.36%	0.37%	0.34%	0.34%	0.44%	0.39%	0.42%	0.40%
Arkansas	0.95%	0.88%	0.83%	0.83%	0.81%	0.78%	0.81%	0.70%
Florida	0.65%	0.58%	0.50%	0.45%	0.32%	0.34%	0.25%	0.80%
Georgia	0.56%	0.48%	0.45%	0.37%	0.30%	0.15%	0.15%	0.10%
Kentucky	0.78%	0.75%	0.72%	0.72%	0.68%	0.63%	0.53%	0.50%
Louisiana	0.70%	0.64%	0.57%	0.54%	0.48%	0.42%	0.44%	0.50%
Maryland	1.18%	1.08%	0.77%	0.54%	0.48%	0.48%	0.44%	0.40%
Mississippi	0.85%	0.77%	0.48%	0.43%	0.50%	0.56%	0.53%	0.40%
Missouri	0.94%	0.70%	0.66%	0.61%	0.55%	0.43%	0.44%	0.40%
North Carolina	0.34%	0.28%	0.10%	0.31%	0.35%	0.36%	0.35%	0.30%
Oklahoma	0.53%	0.49%	0.40%	0.32%	0.17%	0.18%	0.15%	0.10%
South Carolina	0.64%	0.63%	0.62%	0.60%	0.42%	0.41%	0.44%	0.40%
Tennessee	0.59%	0.55%	0.50%	0.46%	0.46%	0.43%	0.44%	0.40%
Texas	0.62%	0.60%	0.52%	0.47%	0.43%	0.38%	0.44%	0.40%
Virginia	0.48%	0.45%	0.36%	0.26%	0.17%	0.16%	0.15%	0.10%
West Virginia	1.12%	1.06%	1.06%	1.03%	1.01%	1.00%	1.09%	1.00%
SLC Average	0.71%	0.64%	0.56%	0.52%	0.47%	0.44%	0.44%	0.43%
U.S. Average	0.92%	0.86%	0.78%	0.70%	0.62%	0.57%	0.54%	0.50%

Source: U.S. Department of Labor, Office of Workforce Security

Table 9 indicates the downward trend in taxes as a proportion of total wages in both the SLC states and the nation at large in the 1990s. For instance, the U.S. average dropped steadily from 0.92 percent of total wages in 1994 to 0.50 percent in 2001. For the SLC states, the drop was statistically even more significant since the rates were lower at the outset. Specifically, in 1994, the rate was 0.71 percent of total wages, and by 2001 it was 0.43 percent of total wages. In terms of the actual percentage decline between 1994 and 2001, for the United States the rate almost halved, declining by 46 percent while for the SLC states the percentage decline was 39 percent during the same period. A quick review of some of the specific SLC states remains appropriate. In this connection, between 1994 and 2001, the SLC state that experienced the largest drop was Georgia, 82.14 percent (from 0.56 percent in 1994 to 0.10 percent in 2001). At the other end of the spectrum, was Florida, which saw its taxes as a percentage of total wages, actually expand by 23.08 percent (from 0.65 percent in 1994 to 0.80 percent in 2001). Finally, except for Florida and Alabama, the remaining 14 SLC states actually saw their unemployment insurance tax rates, as a proportion of total wages, decline between 1994 and 2001.

Figure 6 indicates this declining proportion for the period between 1994 and 2001 and provides a graphical representation of the averages for the United States and the SLC states.



Source: U.S. Department of Labor, Office of Workforce Security

The second fundamental difference experienced in the 1990s, specific legislative actions initiated by state legislatures to lower unemployment insurance taxes levied on employers, was a component of a much larger strategy pursued by a number of states: across-the-board tax cuts in a number of categories such as personal income, corporate income, sales, property and auto registration. Some of the states that adopted this approach were Washington, Texas, South Carolina, New York, New Jersey, Michigan, Massachusetts, Maryland, Idaho and Georgia.³⁸ As Baldwin notes in the same publication, in 1995, Maryland cut unemployment insurance taxes levied on employers by \$410 million over five years, while South Carolina cut taxes in half in 1998, lopping some \$50 million out of the state's trust fund.

Alongside the general move toward cutting taxes that was prevalent throughout much of the mid-to-late 1990s, state officials justified slashing the unemployment insurance tax assessed on employers during prosperous economic times by noting that it was more prudent to circulate funds in the economy as opposed to retaining funds in a reserve fund. In fact, this rationale runs counter to the essential principals of the unemployment insurance program, which seeks to bolster unemployment insurance trust fund reserves during economic boom years so as to provide unemployment benefits to those eligible laid off workers. According to Larry Jones, a spokesman for the Texas Workforce Commission, the state entity charged with administering the unemployment insurance program in the state, "[W]e feel that the money is better off circulating in the economy than sitting in a fund somewhere. It's a long-standing philosophy in Texas to handle funding like that."³⁹ Similarly, Linda Angello, Commissioner, New York State Department of Labor, notes that her state's "system resulted from policy choices that governors and legislatures have made for decades: not

A number of SLC states have pursued the strategy of slashing the unemployment insurance taxes levied on employers.

Georgia: In 1998, the state enacted a \$122 million unemployment insurance tax cut to last for two years. Then, in 1999, the state introduced a \$1 billion four-year unemployment insurance tax moratorium. (“Georgia’s Largest Tax Cut...”, *The Atlanta Business Chronicle*, February 18, 2002).

Texas: The average tax rate that the Texas Workforce Commission assessed employers declined from 1.02 percent in 2000 to 0.94 percent in 2001. (“Unemployment Insurance Tax Rates Decrease for Texas Employers,” *The Texas Workforce Commission*, Press Release, December 13, 2000).

North Carolina: In 1992, the General Assembly voted to cut in half the taxes employers pay on wages. During the years that followed, there were four more tax cuts, plus a one-year tax holiday in 1997. (“Higher Payroll Taxes on Way,” *The North Carolina News & Observer*, February 8, 2002).

to stockpile unemployment money during good times.” Ms. Angello notes also that “[W]e have said to businesses, ‘We don’t think that money should be charged to you to put in what is, in essence, a bank account. We would rather see you using that money.’”⁴⁰ Finally, Jack Cipriani, a member of the North Carolina Employment Security Commission, stated that “[W]e have a cycle of giving discounts during good times . . .”⁴¹ He continued that “. . . raising taxes [employer] when times are bad hurts North Carolina businesses. The Legislature has to find a way to break that cycle.”

The contrarian approach of some SLC states in lowering tax rates and not continuing to build reserves during a period of economic expansion has the potential end result of forcing states to raise taxes on businesses during an economic downturn, generally accepted as the worst time possible. Given the rising number of unemployed workers eligible for unemployment insurance benefits during this current recession, states with starkly depleted trust fund balances were forced to either secure interest-bearing loans from the federal government and/or raise taxes on employers. The following examples help illustrate this point.

- North Carolina’s unemployment trust fund will be depleted out by March 2003 according to an official with the state’s Employment Security Commission (ESC), the entity that administers the unemployment insurance program.⁴² As a result, North Carolina will likely have to rely on an emergency reserve to pay jobless claims which, in turn, will result in business unemployment insurance rates to more than double next year. Extracting any money from the emergency fund automatically leads to a 20 percent payment penalty on employers; this increase would be in addition to an automatic doubling of next year’s rate if the trust fund balance falls below \$800 million on July 31, 2002. As the state’s new ESC chair noted, “[T]he lesson we learned from this experience . . . is that we ought to plan for leaner times.”
- Texas was forced to seek between \$800 million and \$1 billion from the U.S. Department of Labor to replenish its unemployment insurance trust fund in early 2002.⁴³ Since the early 1980s, the federal government has charged interest, currently about 6.3 percent, from states that borrow such funds; the loans will draw down unemployment trust funds maintained by the federal government. In addition, Texas expects to double the unemployment taxes paid by employers to bolster its trust fund balances for the future. According to Wayne Vroman, an unemployment insurance expert, “the unemployment insurance woes in Texas . . . are a direct consequence of its tax policies.”⁴⁴

- Another state in a similar plight as Texas is New York, which also has to deal with the economic consequences of the September 11 terrorist attacks. While the state's fund was in dire straits even before the terror attacks, New York sought \$740 million from the federal government to augment its fund.⁴⁵

State Trust Fund Balances

A critical component of the nation's unemployment insurance program is the financial health of the state trust funds. These are the funds that states deploy to collect contributions and pay out benefits to those eligible unemployed workers in their states. Additionally, any interest earned by the funds automatically flow back into the funds, serving to augment the principal. In this connection, it is appropriate to peruse the status of the funds from a historical perspective. Table 10 displays information at the end of each decade between 1940 and 1990. (Data from the most recent decade warrant greater scrutiny, and this is provided on in the report.)

State Trust Fund Balances December 31, 1940 to December 31, 1990 (In Thousands)						
SLC State	1940	1950	1960	1970	1980	1990
Alabama	\$17,166	\$56,850	\$53,975	\$130,124	\$85,145	\$637,222
Arkansas	\$6,551	\$36,559	\$36,762	\$48,886	\$5,610	\$135,172
Florida	\$12,087	\$73,589	\$102,547	\$268,102	\$812,740	\$2,019,400
Georgia	\$25,607	\$108,989	\$144,588	\$340,429	\$477,607	\$1,072,115
Kentucky	\$32,408	\$123,670	\$104,084	\$175,409	\$35,712	\$413,910
Louisiana	\$17,571	\$97,640	\$120,981	\$145,689	\$223,131	\$455,799
Maryland	\$21,160	\$112,176	\$67,709	\$212,897	\$396,248	\$520,864
Mississippi	\$4,015	\$41,983	\$32,723	\$84,451	\$241,653	\$386,746
Missouri	\$58,106	\$194,674	\$201,724	\$263,566	\$125,698	\$298,573
North Carolina	\$24,434	\$162,036	\$186,565	\$414,112	\$612,730	\$1,513,320
Oklahoma	\$16,762	\$46,332	\$36,998	\$55,063	\$195,557	\$401,832
South Carolina	\$11,486	\$50,830	\$76,526	\$166,256	\$198,045	\$490,361
Tennessee	\$15,597	\$96,177	\$74,451	\$212,347	\$207,980	\$678,049
Texas	\$54,794	\$229,327	\$249,858	\$337,292	\$274,701	\$1,286,101
Virginia	\$19,320	\$81,040	\$88,587	\$217,497	\$69,611	\$723,017
West Virginia	\$19,960	\$83,172	\$35,445	\$107,898	\$3,267	\$152,752
SLC Total	\$357,024	\$1,595,044	\$1,613,523	\$3,180,018	\$3,965,435	\$11,185,233
U.S. Total	\$1,817,110	\$6,972,181	\$6,642,587	\$11,902,575	\$11,582,098	\$38,354,531
SLC as a % of U.S.	19.6%	22.9%	24.3%	26.7%	34.2%	29.2%

Source: U.S. Department of Labor

While a review of Table 10 demonstrates the status of the trust funds in the SLC states at the end of each decade between 1940 and 1990, it should be noted that these figures alone do not reveal additional information such as the state of the funds during the review periods. However, the role played by the SLC state balances in the overall U.S. balance remains noteworthy. In this analysis, it appears that there has been a steady increase in this number, from 20 percent in 1940 to 23 percent in 1950 to 24 percent in 1960 to 27 percent in 1970. While the number leapt to 34 percent at the end

of 1980, the highest it has been since the program's inception, it dropped to 29 percent by the end of 1990. The steady rise of this percentage is an accurate reflection of the SLC states' burgeoning influence on the overall U.S. economy.

On the other hand, Table 11 indicates the percentage differences between the decades reviewed for each state and the SLC as a whole, in addition to providing the data for the United States. Although the numbers reported are not adjusted for inflation, several instructive trends may be extracted from these percentage differences.

Percentage Differences in State Trust Fund Balances December 31, 1940 to December 31, 1990					
SLC State	1940 to 1950	1950 to 1960	1960 to 1970	1970 to 1980	1980 to 1990
Alabama	231.2%	-5.1%	141.1%	-34.6%	648.4%
Arkansas	458.1%	0.6%	33.0%	-88.5%	2,309.5%
Florida	508.8%	39.4%	161.4%	203.1%	148.5%
Georgia	325.6%	32.7%	135.4%	40.3%	124.5%
Kentucky	281.6%	-15.8%	68.5%	-79.6%	1,059.0%
Louisiana	455.7%	23.9%	20.4%	53.2%	104.3%
Maryland	430.1%	-39.6%	214.4%	86.1%	31.4%
Mississippi	945.7%	-22.1%	158.1%	186.1%	60.0%
Missouri	235.0%	3.6%	30.7%	-52.3%	137.5%
North Carolina	563.2%	15.1%	122.0%	48.0%	147.0%
Oklahoma	176.4%	-20.1%	48.8%	255.2%	105.5%
South Carolina	342.5%	50.6%	117.3%	19.1%	147.6%
Tennessee	516.6%	-22.6%	185.2%	-2.1%	226.0%
Texas	318.5%	9.0%	35.0%	-18.6%	368.2%
Virginia	319.5%	9.3%	145.5%	-68.0%	938.7%
West Virginia	316.7%	-57.4%	204.4%	-97.0%	4,575.6%
SLC Total	346.8%	1.2%	97.1%	24.7%	182.1%
U.S. Total	283.7%	-4.7%	79.2%	-2.7%	231.2%

Source: U.S. Department of Labor

During the program's initial years, the decade between 1940 and 1950 saw Mississippi's trust fund expand the most (946 percent), while Oklahoma's experienced the least expansion (176 percent). During the same period, the SLC states as a whole grew by 347 percent, while the United States as a whole grew by 284 percent. Between 1950 and 1960, the SLC states as a whole barely expanded (1 percent), while the United States experienced a decline of 5 percent. In terms of specifics, South Carolina's 51 percent growth rate remained the highest while West Virginia's decline of 57 percent occupied the other end of the spectrum. The decade from 1960 to 1970 saw much steadier expansion, with Maryland's 214 percent and Louisiana's 20 percent depicting the two ends of the continuum within the SLC. During this period, while the SLC states as a whole accelerated by

97 percent, the United States as a whole grew by 79 percent. Furthermore, between 1970 and 1980, the SLC states expanded by 25 percent in contrast to the United States which actually declined by 3 percent. Of particular interest during this decade is Oklahoma growth of 255 percent, while West Virginia's negative 97 percent occupied the other end. Finally, between 1980 and 1990, West Virginia's balance exploded by some 4,576 percent, while Maryland, at 31 percent, was the slowest-growing SLC state during the decade. During this time, the SLC states as a whole expanded by 182 percent while the United States grew by 231 percent. Interestingly, during these review periods, the United States growth rate only expanded faster than the SLC states during a single decade (between 1980 and 1990).

A review of fund balances in more recent years also remains prudent. Table 12 documents the end-of-year (calendar) trust fund balances in the SLC states for the four-year period 1998 through 2001. Under the previously-described experience rating format, trust fund reserves are expected to rise during economic expansions so as to facilitate disbursements during economic downturns, i.e., when high unemployment rates prevail.

SLC State Trust Fund Balances End-of-Year (Calendar) 1998 through 2001 (In Thousands)							
SLC State	1998	1999	%	2000	%	2001	%
Alabama	\$451,571	\$444,141	-1.6%	\$417,414	-6.0%	\$324,488	-22.3%
Arkansas	\$221,853	\$242,270	9.2%	\$267,932	10.6%	\$179,199	-33.1%
Florida	\$2,070,622	\$2,113,688	2.1%	\$2,029,755	-4.0%	\$1,761,823	-13.2%
Georgia	\$1,955,670	\$1,964,336	0.4%	\$1,906,548	-2.9%	\$1,542,375	-19.1%
Kentucky	\$639,269	\$678,494	6.1%	\$700,183	3.2%	\$544,307	-22.3%
Louisiana	\$1,402,085	\$1,479,393	5.5%	\$1,511,999	2.2%	\$1,508,923	-0.2%
Maryland	\$751,394	\$815,177	8.5%	\$882,505	8.3%	\$826,266	-6.4%
Mississippi	\$601,670	\$653,206	8.6%	\$695,793	6.5%	\$658,687	-5.3%
Missouri	\$505,954	\$525,243	3.8%	\$484,904	-7.7%	\$276,308	-43.0%
North Carolina	\$1,293,505	\$1,275,856	-1.4%	\$1,174,664	-7.9%	\$626,318	-46.7%
Oklahoma	\$614,059	\$586,078	-4.6%	\$571,571	-2.5%	\$490,994	-14.1%
South Carolina	\$734,456	\$753,909	2.6%	\$782,242	3.8%	\$627,217	-19.8%
Tennessee	\$870,968	\$887,839	1.9%	\$883,170	-0.5%	\$650,664	-26.3%
Texas	\$805,056	\$652,291	-19.0%	\$742,276	13.8%	\$439,831	-40.7%
Virginia	\$1,002,685	\$1,037,875	3.5%	\$1,067,516	2.9%	\$905,531	-15.2%
West Virginia	\$181,322	\$188,427	3.9%	\$222,839	18.3%	\$239,569	7.5%
SLC	\$14,102,139	\$14,298,223	1.4%	\$14,341,311	0.3%	\$11,602,500	-19.1%
U.S.	\$47,975,294	\$50,320,248	4.9%	\$54,054,393	7.4%	\$46,550,697	-13.9%
SLC % of U.S.	29.4%	28.4%		26.5%		24.9%	

Source: U.S. Department of Labor

As demonstrated in Table 12, the SLC states' share of the total U.S. trust fund balance has been declining during the past four years. From 29 percent in 1998, the number dipped to 28 percent in 1999, 27 percent in 2000 and to 25 percent in 2001. Even the growth rates for the SLC state totals during this period were anemic. After expanding by 1 percent in 1999, the trust funds grew only by 0.3 percent in 2000, and then declined precipitously by 19 percent in 2001. In contrast, the U.S. totals were more impressive, with growth rates of 5 percent in 1999 and 7 percent in 2000; the 14 percent decline in 2001 reflected the substantial increase in the number of unemployed persons receiving benefits across the country. In terms of the specific SLC states, in 1999, the state with the most striking growth rate was Arkansas (9 percent), while Texas displayed the most significant decline (19 percent). Similarly, in 2000, West Virginia's 18 percent expansion was the most among the SLC states, while North Carolina's drop of 8 percent represented the other extreme. And, in 2001, North Carolina's balance plummeted by 47 percent while West Virginia's grew by 8 percent.

A quick comparison of actual trust fund balances in the SLC states reveals several interesting facts. For instance, the relative size of a state's economy does not appear to influence the actual size of the state's unemployment trust fund. A number of other considerations, such as the level of restrictions an individual state may levy on unemployed workers seeking benefits, play a much more significant role. Consequently, a state like Louisiana had \$1.51 billion in its trust fund at the end of 2001, while a substantially larger state such as Texas had only \$439.8 million in its trust fund. Similarly, while Mississippi had \$658.7 million in its trust fund at the end of 2001, North Carolina, with a much larger economy, had only \$626.3 million. Florida (\$1.7 billion) and Georgia (\$1.54 billion) ranked very high among the SLC states in terms of trust fund balances. Similarly, Virginia's \$905.5 million and Maryland's \$826.3 million remained important.

The steep declines in the U.S. and SLC trust fund balances clearly followed the national trend of rising unemployment numbers. In particular, during 2001, when both SLC state and national economies were barely gaining any ground, even regressing during certain quarters of the year, the high unemployment rates in the states necessitated disbursing large portions of the trust funds insurance benefits to those recently laid off. Consequently, there was an inverse relationship between the rising unemployment rate in the SLC states and the declining unemployment insurance trust fund balances during 2001. As the unemployment rose in the SLC states, the unemployment insurance trust fund balances in the states shrank. Table 13 presents this trend showing the unemployment rates in the SLC states during 2000 and 2001 and the percentage drop in the unemployment insurance trust fund balances during 2001.

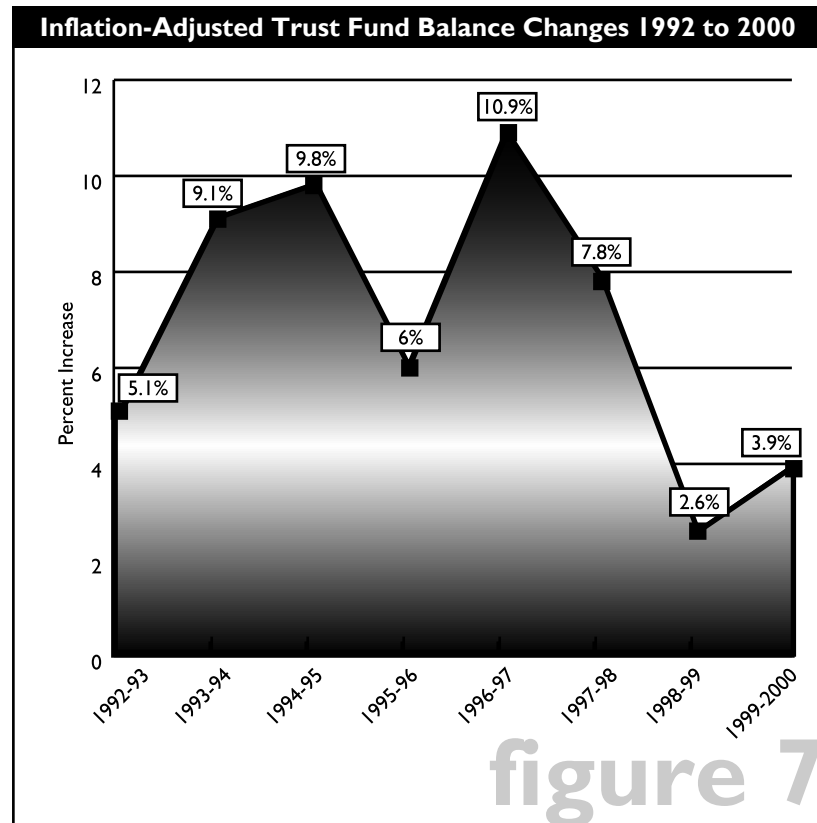
Inverse Relationship Between Unemployment Rates and Trust Fund Balances (In Percentages)			
SLC State	Unemployment Rate		Trust Fund Balance % Change 2000 to 2001
	2000	2001	
Alabama	4.6	5.3	-22.3
Arkansas	4.4	5.1	-33.1
Florida	3.6	4.8	-13.2
Georgia	3.7	4.0	-19.1
Kentucky	4.1	5.5	-22.3
Louisiana	5.5	6.0	-0.2
Maryland	3.9	4.1	-6.4
Mississippi	5.7	5.5	-5.3
Missouri	3.5	4.7	-43.0
North Carolina	3.6	5.5	-46.7
Oklahoma	3.0	3.8	-14.1
South Carolina	3.9	5.4	-19.8
Tennessee	3.9	4.5	-26.3
Texas	4.2	4.9	-40.7
Virginia	2.2	3.5	-15.2
West Virginia	5.5	4.9	7.5
SLC Total	4.1	4.8	-19.1
U.S.	4.0	5.8	-13.9

Source: U.S. Department of Labor

According to Table 13, all the SLC state trust fund balances, except West Virginia's, experienced negative growth in 2001, with North Carolina undergoing the most significant reduction (47 percent). In addition, Missouri and Texas, with 43 percent and 41 percent respectively, realized serious setbacks too. Of the remaining 12 SLC states experiencing negative growth in 2001, only three experienced single-digit reductions; nine SLC states faced double-digit declines, ranging from Arkansas (negative 33 percent) to Florida (negative 13 percent). A review of the data for North Carolina demonstrates the inverse relationship between rising unemployment rates and declining trust fund balances. While the state's unemployment rate soared from 3.6 percent to 5.5 percent between 2000 and 2001, North Carolina's unemployment trust fund decreased by 47 percent during the same period. Similarly, while West Virginia's unemployment rate improved from 5.5 percent to 4.9 percent between 2000 and 2001, the state's unemployment trust fund balance also improved by 8 percent.

Finally, a review of inflation-adjusted changes in state trust fund balances (cumulatively) remains instructive. Plotting these trends illustrates the fundamental basis of the unemployment insurance program in the United States. Accordingly, unemployment insurance taxes levied on employers should rise after recessions, not during, in order that tax revenues increase in

healthy economic times. Similarly, tax revenues should diminish somewhat after trust fund balances are restored. Figure 7 demonstrates the impact of the nation's longest economic expansion on trust fund balances as revenues rise during the early stages of the recovery (as trust fund balances are restored) and revenues decline in the latter stages of the recovery.



Source: U.S. Department of Labor statistics extracted from Baldwin, Marc, April 2001

Trust Fund Solvency

While a review of trust fund balances remains important, such a review remains meaningless unless accompanied by a deeper level of analysis. Large dollar balances alone are not an indication of a state's ability to provide financial assistance to the unemployed; the important question is whether the state's balances are sufficient to meet the needs of unemployed workers in an environment of rising unemployment rates. In sum, trust fund balances remain a largely relative concept; they only remain useful when evaluated in the context of their ability to make payments to eligible unemployed workers for the stipulated time during an economic downturn.

According to Baldwin, there are three important measures of a trust fund's ability to satisfy potential demand:⁴⁶

- A comparison of trust fund balances to the recent benefit history of the state, the average high cost multiple (AHCM);
- A comparison of trust fund balances to long-term benefit history of the state, the high cost multiple (HCM); and
- Trust fund balances as a percentage of total payrolls.

These three measures offer a standardized and objective mechanism to assess the solvency and efficacy of state trust funds. They also consist of varying thresholds of solvency, with the AHCM measure being the lowest

threshold for evaluating trust fund solvency, the HCM measure being the second highest threshold, and the percentage of payroll measure being the highest and most conservative threshold.

Average High Cost Multiple (AHCM)

The most frequently deployed measure of trust fund solvency is the AHCM, which measures the number of years that a state could pay unemployment insurance benefits at peak recessionary levels. The recommended AHCM is 1, an indication that the state's trust fund has the capacity to continue making unemployment insurance benefit payments for at least one year without collecting any additional revenue. In terms of calculations, the AHCM considers more recent recession experience, i.e., the average of the three highest calendar benefit rates in the last 20 years. The rationale being that more recent experience is a better predictor of future experience.

The Advisory Council on Unemployment Compensation (ACUC), operating under the secretary of the U.S. Department of Labor, took the lead on devising and recommending the AHCM of 1 in 1995. In devising this solvency threshold, the ACUC noted the following:

“Congress should establish an explicit goal to promote the forward funding of the unemployment insurance system. In particular, during periods of economic health, each state should be encouraged to accumulate reserves sufficient to pay at least one year of unemployment insurance benefits at levels comparable to its previous “high cost.” For purposes of establishing this forward-funding goal, previous “high cost” should be defined as the average of the three highest annual levels of unemployment insurance benefits that a state has paid in any of the previous 20 calendar years.”⁴⁷

As noted by Baldwin, this ACUC recommendation was directed at Congress. In light of the fact that the ACUC rarely made federal recommendations, opting instead on recommendations to state legislatures, ACUC's call for a federal solvency standard highlights the importance of this recommendation.

Table 14 presents the AHCM rates in the SLC states during the past four calendar years, 1998 through 2001.

AHCM Rates in the SLC States 1998 through 2001				
SLC State	1998	1999	2000	2001
Alabama	0.77	0.73	0.64	0.50
Arkansas	0.63	0.66	0.66	0.45
Florida	1.68	1.61	1.39	1.15
Georgia	2.19	1.98	1.73	1.39
Kentucky	0.79	0.79	0.74	0.58
Louisiana	1.30	1.38	1.33	1.29
Maryland	0.94	0.95	0.92	0.82
Mississippi	1.85	1.91	1.92	1.87
Missouri	0.65	0.64	0.55	0.31
North Carolina	1.17	1.06	0.89	0.47
Oklahoma	1.72	1.62	1.44	1.18
South Carolina	1.37	1.31	1.25	1.01
Tennessee	0.99	0.96	0.88	0.65
Texas	0.33	0.26	0.26	0.14
Virginia	1.50	1.40	1.30	1.04
West Virginia	0.45	0.46	0.51	0.54
SLC Average	1.15	1.11	1.03	0.84
U.S. Average	0.94	0.93	0.89	0.75

Source: U.S. Department of Labor

Table 14 indicates that by the end of 2001 slightly fewer than half the SLC states (7) exceeded the recommended trust fund threshold of an AHCM higher than 1. Mississippi (1.87) and Georgia (1.39) led the SLC states in 2001. Based on the 2001 figures, Mississippi has the capacity to pay benefits for just less than two years during a peak recession, while Georgia has the capacity to pay benefits for slightly less than 18 months during a peak recession. The other SLC states exceeding the recommended AHCM threshold were Florida (1.15), Louisiana (1.29), Oklahoma (1.18), South Carolina (1.01) and Virginia (1.04). Nine SLC states failed to bolster their reserves during the most recent boom years to meet the recommended AHCM standard. Texas (0.14) was the SLC state with lowest solvency level, a scenario that resulted in Texas having to seek supplementary funds from the federal government to continue making unemployment benefit payments.⁴⁸ In addition, there were four SLC states with either exactly half or less than half the recommended AHCM level, including Alabama (0.50), North Carolina (0.47), Arkansas (0.45) and Missouri (0.31). The remaining SLC states had AHCM rates approaching the recommended level: Maryland (0.82), Tennessee (0.65), Kentucky (0.58) and West Virginia (0.54). In terms of averages, while the SLC average (0.84) was higher than the U.S. average (0.75), it was nevertheless below the recommended level. In sum, while certain SLC states took advantage of the booming economy of the past decade to boost their trust fund reserves and remain better equipped to deal with the tens of thousands who would become unemployed, more than half the SLC states failed to do so.

High Cost Multiple (HCM)

In addition to being the second highest threshold for assessing the solvency of state trust funds, the HCM delves even further in time in comparing trust fund reserves to each state's experience with benefit outlays. Specifically, the HCM considers two ratios: the numerator is the ratio of benefits paid during the 12-month period with highest outlays since 1958 to total payrolls during that 12 months; the denominator is the ratio of the trust fund balance to total payroll. When combined, these ratios suggest the size of current state trust fund reserves relative to outlays in the year with the highest benefit outlays in the state. Furthermore, the HCM measure incorporates both the state's own eligibility and benefit history plus the state's unique experience with periods of high unemployment for an extended period of time. Yet, experts caution against over reliance on this measure since state unemployment programs do change over time and economic recessions in the future may not mirror recessions from the past.

Table 15 documents the HCM rates in the SLC states between 1998 and 2001.

HCM Rates in the SLC States 1998 through 2001				
SLC State	1998	1999	2000	2001
Alabama	0.53	0.50	0.44	0.34
Arkansas	0.39	0.40	0.41	0.27
Florida	0.74	0.71	0.61	0.51
Georgia	0.99	0.89	0.78	0.63
Kentucky	0.65	0.65	0.61	0.48
Louisiana	1.15	1.22	1.18	1.15
Maryland	0.63	0.63	0.61	0.55
Mississippi	1.47	1.52	1.53	1.49
Missouri	0.43	0.42	0.36	0.20
North Carolina	0.63	0.57	0.47	0.25
Oklahoma	1.58	1.49	1.33	1.08
South Carolina	0.70	0.66	0.64	0.52
Tennessee	0.66	0.64	0.59	0.44
Texas	0.30	0.23	0.23	0.13
Virginia	0.96	0.90	0.84	0.67
West Virginia	0.36	0.37	0.40	0.43
SLC Average	0.76	0.74	0.69	0.57
U.S. Average	0.68	0.67	0.64	0.54

Source: U.S. Department of Labor

Here, also, the recommended measure for the HCM rate remains 1. The greater the number of states that can maintain a HCM rate of 1 or higher, the greater the chances of the state extending unemployment insurance benefits to its workers during the most demanding of recessions. Unfortunately, HCM rates for both the United States in general, and for most of the SLC states, in particular, do not remain overly promising. During the last four years, given the souring economy, both the national and SLC averages have been steadily declining. For instance, in 1998, while the U.S. rate was 0.68, the SLC rate was 0.76. Similarly, in 1999 and 2000, the U.S. rates were 0.67 and 0.64, respectively, while the SLC rates were 0.74 and 0.69. For the most recent full year, 2001, while the U.S. rate was 0.54, the SLC rate was 0.57. Hence, even though the SLC states appear to be faring marginally better in terms of preparing for a difficult economic climate, both measures are far from the recommended 1 rate.

Specifically, 13 of the 16 SLC states had HCM rates below the recommended level. In this connection, the state with the lowest HCM rate was Texas (0.13) mirroring its performance with regard to its AHCM rate. Similarly, Missouri (0.20) and North Carolina (0.25) also had low HCM rates. Eight of the 16 SLC states had HCM rates below half the recommended target level. In contrast, there were three SLC states with HCM rates well over the recommended target, with Mississippi (1.49), Louisiana (1.15) and Oklahoma (1.08) leading the region.

Trust Funds Compared to Payrolls

The final and highest possible measure of a trust fund's solvency involves the fund's reserves relative to total payroll. This measure, expressed as a percentage, divides a state's trust fund balance by the dollar value of all payrolls covered by the unemployment insurance program. A favorable measure in this category would require the state to maintain sufficient trust fund reserves to cover benefit distribution to all those employees contributing to the state's trust fund. As expected, no state maintains a trust fund balance to permit this level of coverage, and the national record does not remain stellar either. For instance, in 2001, the U.S. average was 1.20 percent, i.e., on average, state funds could replace one and one-fifth percent of all wages.

Table 16 provides a breakdown with regard to this measure of the SLC states between 1998 and 2001.

Trust Funds (TF) as a Percentage of Total Wages (TW), 1998 to 2001				
SLC State	TF as % of TW			
	1998	1999	2000	2001
Alabama	1.14	1.09	0.95	0.74
Arkansas	1.04	1.08	1.09	0.73
Florida	1.38	1.32	1.14	0.94
Georgia	2.10	1.90	1.66	1.33
Kentucky	1.79	1.79	1.68	1.32
Louisiana	3.56	3.77	3.64	3.53
Maryland	1.37	1.38	1.34	1.20
Mississippi	2.90	3.00	3.02	2.93
Missouri	0.85	0.83	0.71	0.40
North Carolina	1.55	1.40	1.17	0.62
Oklahoma	2.17	2.04	1.82	1.49
South Carolina	2.02	1.92	1.84	1.49
Tennessee	1.45	1.40	1.28	0.95
Texas	0.35	0.27	0.27	0.15
Virginia	1.26	1.18	1.09	0.87
West Virginia	1.43	1.47	1.61	1.71
SLC Average	1.65	1.62	1.52	1.28
U.S. Average	1.50	1.49	1.42	1.20

Source: U.S. Department of Labor

As documented by Table 16, the average for the SLC states remains better than the national average for the four-year period under review. The SLC states maintained an average trust fund balance of 1.65 percent as a proportion of total wages to the 1.50 percent U.S. average in 1998. Similarly, in 1999 and 2000, it was 1.62 percent and 1.52 percent versus 1.49 percent and 1.42 percent, respectively. For the most recent year, 2001, the contrast was less marked, 1.28 percent for the SLC states and 1.20 percent for the United States. Given the fact that in 1982, when the country was in the throes of the 1981/82 recession, the national reserve ratio was zero percent, the current scenario remains a distinct improvement.

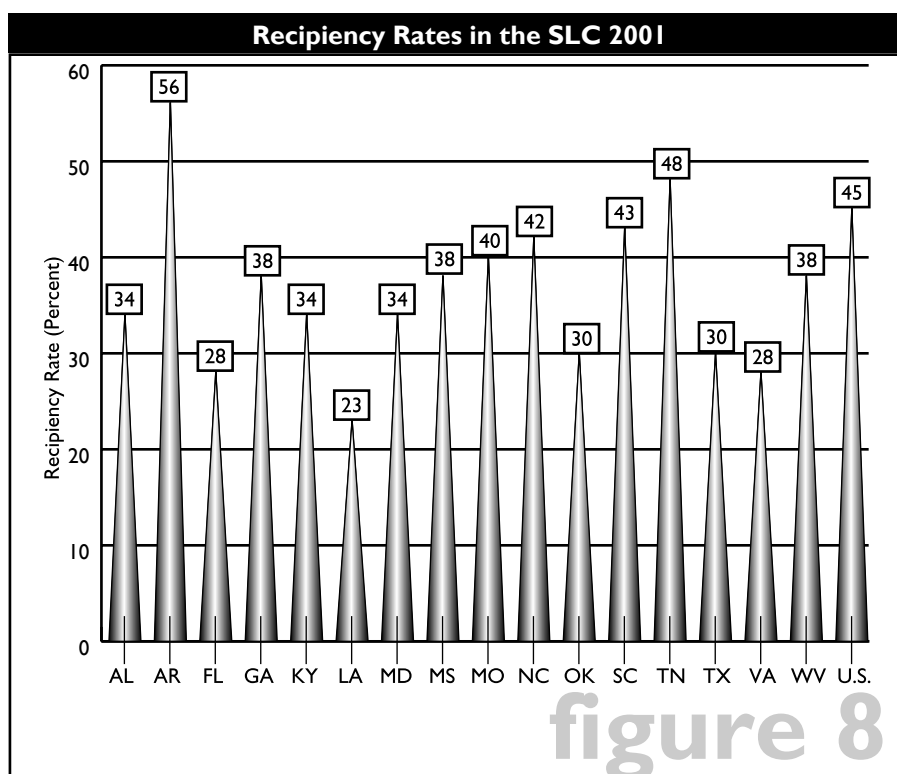
In terms of specific SLC states, eight of the 16 attained a percentage measure greater than 1 percent (between 1.20 percent and 3.53 percent) in 2001. Leading the SLC in this instance were Louisiana (3.53 percent), Mississippi (2.93 percent) and West Virginia (1.71 percent). Texas fared poorly with only 0.15 percent of total wages in its unemployment trust fund balance. Missouri, operating with only 0.40 percent, was the SLC state with the next lowest percentage. These two SLC states were the only two with balances of less than one-half of one percent, with the remaining six SLC states operating between 0.62 percent and 0.95 percent. Nationally, there were four states with balances exceeding 3.5 percent: Vermont (4.58 percent); Wyoming (3.99 percent); New Mexico (3.78 percent); and Louisiana (3.53 percent).

Unemployment Insurance Benefits: How Much to How Many?

Another important component of the program involves the percentage of unemployed workers in the system actually receiving unemployment benefits. A noteworthy corollary of the program includes the different criteria that make an unemployed worker eligible for these benefits. While these criteria are both monetary and non-monetary, they vary widely from state to state, and fall under the following broad areas: sufficient wages in the past year; involuntary separation from employment; and availability for work.⁴⁹

In terms of the earning criteria, eligibility depends on a state's minimum earnings requirement in either the base period or the quarter with the highest earnings from a one-year base period. While base period wage requirements for minimum benefits span between \$565 and \$3,400 in the states, the high quarter wage requirement spans between \$150 and \$2,266. Furthermore, states also stipulate when these earnings must occur. Typically, most states list the base period for eligibility as the first four of the five most recently completed quarters. The second important criteria, a non-monetary one, holds for all states and stipulates that the employee must have lost their job involuntarily and through no fault of his/her own. An allied eligibility requirement stipulates that the unemployed worker must be actively engaged in seeking a job and ready for work.

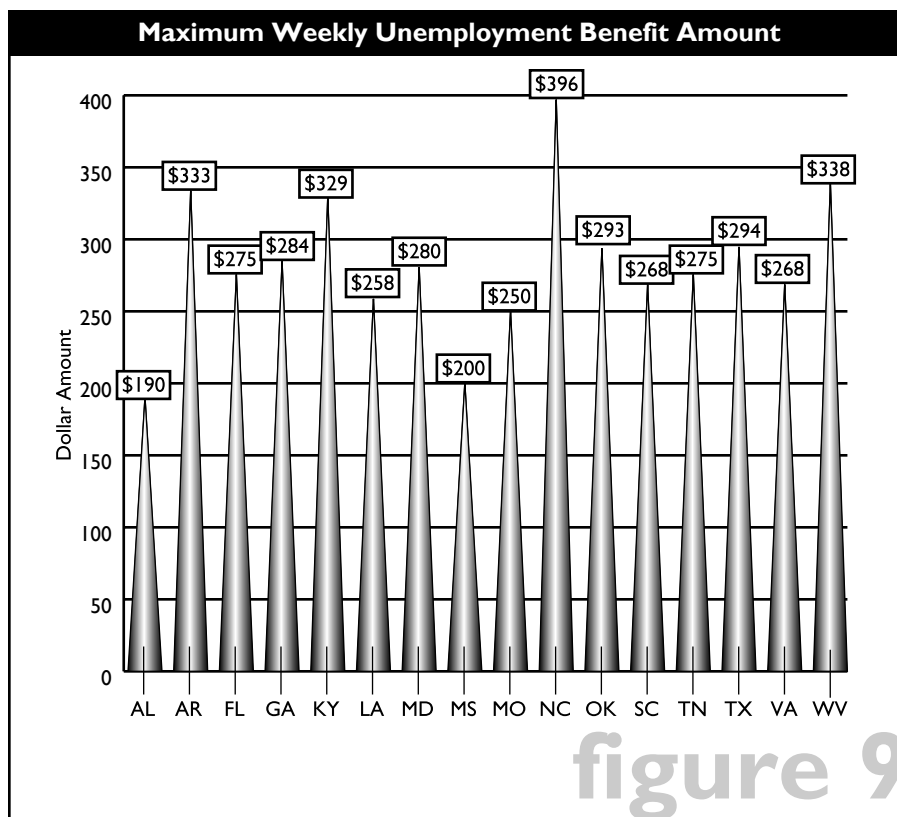
Nationally, there has been a great deal of fluctuation in the percentage of unemployed workers receiving unemployment benefits. Specifically, the proportion of unemployed workers receiving benefits, the reciprocity rate, hovered at about 49 percent in the 1950s, to over 75 percent during the throes of the 1974-75 recession, to about 35 percent in the 1990s.⁵⁰ It should be noted that for calendar years 2000 and 2001, the national reciprocity rates were 40 percent and 45 percent, respectively.⁵¹ Figure 8 demonstrates the reciprocity rates for the SLC states, along with the U.S. average, for the most recently available calendar year, 2001.



Source: U.S. Department of Labor

In 2001, except for Arkansas, no SLC state had a rate above 50 percent. In fact, the SLC average of 37 percent was several points lower than the U.S. average of 45 percent for the same time period. The SLC state with the lowest number of unemployed workers receiving unemployment insurance benefits was Louisiana (23 percent), the SLC state with the highest number was Arkansas (56 percent). There were three SLC states with rates between 20 percent and 29 percent, eight between 30 percent and 39 percent and four SLC states between 40 percent and 49 percent. With 56 percent, Arkansas was the only SLC state higher than 50 percent. Nationally, the two states with the highest reciprocity rates were Massachusetts (75 percent) and Connecticut (68 percent).

Alongside the issue of reciprocity, the issue of the maximum weekly unemployment benefit amount that eligible unemployed workers may receive remains an important area of analysis. Figure 9 provides a breakdown of the maximum weekly unemployment benefit amounts provided in the SLC states.



Source: U.S. Department of Labor

According to Figure 9, the SLC state providing the highest (maximum) unemployment payment was North Carolina at \$396. West Virginia was the second highest at \$338 and Arkansas (\$333) and Kentucky (\$329) were the remaining states providing more than \$300 in maximum weekly benefits. SLC states with lower benefits included Alabama with \$190 (also the lowest in the country) and Mississippi at \$200 maximum weekly amount (the second lowest among the SLC states and in the United States). The SLC average remained at \$268 for the period reported. Nationally, Massachusetts provided the highest weekly benefit amount (\$715).

It should be noted that at the conclusion of their 2002 legislative sessions, several SLC states agreed on raising the maximum allowable unemployment insurance payments.

Alabama: The Legislature used the last day of session to increase unemployment benefits by \$20 weekly to a maximum weekly benefit of \$210 for eligible workers laid off after July 1, 2002. This measure passed the House 94 - 0 and the Senate 33 - 0. In Alabama, on average, 62 percent of unemployed workers receiving compensation secure the maximum weekly benefit. ("Legislature Raises Unemployment Compensation," *The Associated Press*, April 17, 2002).

Mississippi: On July 1, 2002, the maximum weekly benefit offered in the state increases from \$200 to \$210. Notwithstanding these increases, Alabama and Mississippi continue to provide the lowest maximum weekly benefit in the country. ("Legislature Raises Unemployment Compensation," *The Associated Press*, April 17, 2002).

Georgia: Georgia's maximum weekly unemployment benefit will increase to \$295 on July 1, 2002, and then to \$300 on July 1, 2003. (GoverNet, GA HB 342, www.govaffairs.com).

The final aspect of unemployment insurance benefits in the SLC states entails a review of initial claims trends in recent years. Initial claims as defined by the U.S. Department of Labor refers to "[A]ny notice of unemployment filed to request a determination of entitlement to and eligibility for compensation or to begin a second or subsequent period of eligibility within a benefit year or period of eligibility."⁵² Table 17 documents trends for the four-year period 1998 to 2001 and indicates the growing impact of the souring economy towards the latter portion of this period.

Initial Claims in the SLC States Fourth Quarter 1998 through Fourth Quarter 2001								
SLC State	Initial Claims							
	1998		1999		2000		2001	
	Number	% of U.S.	Number	% of U.S.	Number	% of U.S.	Number	% of U.S.
Alabama	83,058	1.8%	67,497	1.7%	83,863	1.8%	94,579	1.5%
Arkansas	64,538	1.4%	56,030	1.4%	62,145	1.3%	93,029	1.5%
Florida	93,314	2.0%	81,422	2.0%	86,564	1.8%	155,131	2.5%
Georgia	96,550	2.1%	85,550	2.1%	122,522	2.6%	177,752	2.8%
Kentucky	69,630	1.5%	62,802	1.6%	88,552	1.9%	111,325	1.8%
Louisiana	41,564	0.9%	36,609	0.9%	42,651	0.9%	53,077	0.8%
Maryland	56,102	1.2%	56,635	1.4%	55,367	1.2%	78,330	1.2%
Mississippi	55,276	1.2%	40,213	1.0%	49,593	1.1%	58,702	0.9%
Missouri	99,740	2.2%	87,697	2.2%	111,849	2.4%	121,486	1.9%
North Carolina	181,112	3.9%	172,852	4.3%	236,257	5.0%	313,459	5.0%
Oklahoma	30,763	0.7%	23,638	0.6%	31,119	0.7%	44,996	0.7%
South Carolina	77,260	1.7%	67,136	1.7%	90,043	1.9%	129,230	2.0%
Tennessee	96,461	2.1%	81,443	2.0%	109,205	2.3%	132,055	2.1%
Texas	206,093	4.5%	183,778	4.5%	192,919	4.1%	292,684	4.6%
Virginia	80,459	1.8%	66,139	1.6%	76,157	1.6%	129,736	2.1%
West Virginia	24,944	0.5%	21,881	0.5%	25,530	0.5%	22,822	0.4%
SLC Total	1,356,864	29.6%	1,191,322	29.4%	1,464,336	31.1%	2,008,393	31.8%
U.S. Total	4,587,453		4,051,645		4,711,469		6,324,379	

Source: U.S. Department of Labor, Office of Workforce Security

In terms of initial unemployment claim filings, Table 17 indicates that the role played by the SLC states in overall U.S. calculations increased slightly between the end of 1998 and the end of 2001. Accounting for 29.6 percent of the U.S. total at the end of the fourth quarter of 1998, the proportion increased to 31.8 percent by the end of the fourth quarter of 2001 in the SLC states. The two SLC states with the largest number of initial claims during this period were North Carolina and Texas. (North Carolina's share of the U.S. total increased from 3.9 percent in 1998 to 5 percent in 2001; similarly, Texas' share increased from 4.5 percent in 1998 to 4.6 percent in 2001, even though the number dropped to 4.1 percent in 2000). It should be noted that North Carolina's initial claims filings during the review period were generally disproportionate to its population level among the SLC states. In fact, in both 2000 and 2001, North Carolina led the SLC by accounting for 5 percent of the national initial claims filings, a clear indication of how the current economic slowdown has affected the state.

Information on initial claim filings from more recent months are listed in Table 18. Specifically, this table indicates the number of initial claims filed in the last week of the past four months (February through May 2002).

Recent Initial Claim Filings in the SLC States							
SLC State	Recent Initial Claim Filings						
	February 2002 (March 2, 2002)	March 2002 (March 30, 2002)		April 2002 (May 4, 2002)		May 2002 (June 1, 2002)	
	Number	Number	Change	Number	Change	Number	Change
Alabama	4,602	5,436	18.1%	5,450	0.3%	4,529	-16.9%
Arkansas	4,131	4,562	10.4%	3,751	-17.8%	4,010	6.9%
Florida	8,388	9,083	8.3%	10,879	19.8%	10,626	-2.3%
Georgia	9,214	9,196	-0.2%	10,248	11.4%	8,526	-16.8%
Kentucky	4,863	5,344	9.9%	4,351	-18.6%	3,897	-10.4%
Louisiana	3,815	3,554	-6.8%	4,088	15.0%	3,737	-8.6%
Maryland	4,771	5,352	12.2%	4,441	-17.0%	3,659	-17.6%
Mississippi	2,470	6,140	148.6%	2,976	-51.5%	3,998	34.3%
Missouri	7,521	8,948	19.0%	6,796	-24.1%	7,122	4.8%
North Carolina	15,140	16,279	7.5%	13,261	-18.5%	12,768	-3.7%
Oklahoma	2,413	2,643	9.5%	2,691	1.8%	1,962	-27.1%
South Carolina	5,485	5,258	-4.1%	4,737	-9.9%	5,008	5.7%
Tennessee	6,754	5,935	-12.1%	8,117	36.8%	6,099	-24.9%
Texas	16,489	16,717	1.4%	24,868	48.8%	20,331	-18.2%
Virginia	7,099	6,326	-10.9%	5,701	-9.9%	4,656	-18.3%
West Virginia	1,613	1,431	-11.3%	1,688	18.0%	1,439	-14.8%
SLC Total	104,768	112,204	7.1%	114,043	1.6%	102,367	-10.2%
U.S. Total	385,060	387,882	0.7%	362,704	-6.5%	310,044	-14.5%

Source: U.S. Department of Labor, Office of Workforce Security

A scan of the initial claims filings scenario in the SLC states for the first half of 2002 indicates that the proportion of claimants appears to be increasing. For the month of February 2002 (period ending March 2, 2002), the SLC states accounted for 27.2 percent of total U.S. filings. Then, in March 2002 (period ending March 30, 2002), the SLC states accounted for 28.9 percent and in April (period ending May 4, 2002), they accounted for 31.4 percent. Finally, in May 2002 (period ending June 1, 2002), the number stood at 33 percent. In terms of the actual initial claims filings, for the SLC states cumulatively, after increasing by 7.1 percent between February and March 2002, initial claims filings only increased by 1.6 percent between March and April 2002 and actually declined by 10.2 percent between April and May 2002.

Conclusion

After the unsurpassed economic boom that swept the country for a decade, the first signs of the contracting economy that surfaced in the latter portion of 2000 and the initial months of 2001 raised the specter that the oncoming recession would be grim. This was because, notwithstanding the long litany of benefits associated with the boom, a number of structural economic trends had developed and contained the potential to derail the recovery. These developments included the low personal savings rate among Americans, the substantial surplus capacity in businesses, grossly overvalued stocks and their inordinately high P/E (price to earnings) ratios and meager corporate profits. In addition, the prospect of further terror attacks and/or turmoil in the Middle East crimping oil flows threatened the recovery, too. Fortunately, it appears that the 2001 recession was a mild one; compared to six other recessions since the 1960s, it appears that this recession resulted in the smallest decline in output (GDP), the shortest decline in the length of the GDP decline and the smallest rise in the unemployment rate.⁵³ Even globally, it turns out that the slowdown was much more modest than feared and the International Monetary Fund's (IMF) latest *World Economic Outlook* projects global growth in 2002 to actually reach 2.8 percent, somewhat higher than expected even in December 2001.⁵⁴ The IMF notes that leading economic indicators have been turning upwards, consumer and business confidence have strengthened and industrial production is on the rise.

Notwithstanding the signs of a budding economic recovery across the country, the fiscal health of various levels of government remain under significant pressure. At the federal level, the CBO indicated that the government's cumulative surplus between fiscal years 2002 and 2011 would diminish from \$5.6 trillion to \$1.6 trillion. Even for fiscal year 2002, it is estimated that the federal government will face a shortfall of about \$140 billion, an amount much higher than foreseen even a few months ago. This tight federal budget scenario and a range of federal legislative initiatives trigger a host of negative ripple effects that affect state governments. For instance, the phase-out of the federal estate tax under the June 2001

Economic Growth and Tax Reconciliation Act could result in significant revenue losses to states. In this instance, unless the SLC states fully decouple themselves from the federal tax changes, they could stand to lose slightly more than \$8 billion; by partially decoupling themselves, SLC states could reduce the potential loss to \$6.8 billion. Furthermore, given the cutbacks in the disbursement of federal transportation funds to states proposed by the Bush Administration for the upcoming fiscal year, SLC states stand to see \$1.6 billion fewer dollars for transportation and highway projects. Then, the administration's attempts to rein Medicaid growth by lowering payments to public hospitals and eliminating state efforts to obtain additional federal funds could see reduced Medicaid payments to states. Finally, the economic stimulus legislation signed into law by the president in early March 2002, while including funds transfers to extend unemployment insurance payments (\$2.9 billion to the SLC states), also contains a bonus depreciation feature that reduces state revenue collections. In this regard, between fiscal years 2002 and 2004, the SLC states could lose as much as \$4.4 billion.

The negative implications of these federal actions could undermine state finances further at a time when so many states continue to battle a number of intractable fiscal issues such as shrinking revenue streams, exploding Medicaid enrollments and charges, rising cost overruns in essential programs and diminishing budgets for education, health care and other important areas. For instance, several SLC states foresee serious shortfalls in their current fiscal year budgets and even bigger deficits in the budget for the upcoming fiscal year. North Carolina is a good example. The state anticipates that its current fiscal year budget deficit could rise to as much as \$1.6 billion, while the state's shortfall in the upcoming fiscal year could surpass \$2 billion. A by product of Missouri's fiscal difficulties resulted in the state informing 415,000 taxpayers in early May 2002 that their income tax refund checks (worth a total of \$167 million) were on indefinite hold because of "an extreme cash flow crisis."⁵⁵ Missouri Governor Holden also announced that he would place about 6,000 state employees on two-day furloughs and withhold nearly \$83 million in payments to the state's two-year and four-year colleges and universities, all measures to cover an estimated \$230 million deficit in the current fiscal year.⁵⁶ Across the country, as of April 2002, fiscal year 2002 budget gaps in the states cumulatively added up to \$27 billion, with six states reporting budget gaps in excess of 10 percent and 17 states reporting shortfalls of more than 5 percent.

Alongside the fiscal tsunami sweeping through federal and state governments, the souring economy has resulted in a high rate of unemployment. The increase in the national unemployment rate to 5.8 percent in December 2001 stood in marked contrast to the low of 3.9 percent enjoyed as recently as October 2000. After dipping to 5.5 percent in February 2002, the rate rose to 5.7 percent in March 2002, 6 percent in April 2002 and dropped to 5.8 percent in May 2002.⁵⁷ Yet, in the last decade or so, after the unemployment rate peaked at 7.4 percent in 1992, the nation's unemployment rate dropped steadily through 2000 (4 percent). In this connection, a number of SLC states, certainly some of the fastest growing in the country, displayed stunningly low unemployment rates with Virginia (2.1 percent in January 2001), Oklahoma (2.7 percent in January 2001) and Georgia (3.3 percent in December 2000) remaining in the forefront. However, even these high-flying states were not impervious to the regressing economy, and they soon ended up with increasing rates of unemployment. For instance, at the end of 2001, the SLC state average (4.8

percent) though lower than the national average (5.8 percent), resulted in an expanding number of workers seeking relief in the form of unemployment insurance benefits from their state labor departments.

Unemployment insurance, a program run in conjunction by federal and state authorities, pays benefits to workers who are unemployed due to no fault of their own (as determined by law in the worker's state), who are seeking work and who meet other eligibility criteria specified by the state. While the history of the program originates with the 1935 Social Security Act, benefits provided by the program to laid off workers do not seek to replace income but are supposed to provide for essential expenses while the unemployed continue looking for work. An allied advantage of these unemployment benefit payments involves stimulating the local economies of those affected since it is presumed that they will spend their benefits locally. With just three exceptions, unemployment insurance benefit funding in the states is based solely on a tax levied on employers. (Alaska, New Jersey and Pennsylvania have some employee contributions). These payroll taxes flow into trust funds that states use to draw down when making payments to eligible unemployed workers.

In general, states seek to boost trust fund balances during economic expansions so they are well equipped to provide unemployment insurance for eligible workers during periods of high unemployment. As expected, certain states in the SLC have followed this principle more carefully than others and at the end of 2001, three SLC states had trust fund balances of at least a billion and a half dollars. (Florida with \$1.8 billion, and both Georgia and Louisiana with \$1.5 billion each). While the U.S. total in this regard was \$46.6 billion, the SLC total was \$11.6 billion.

Yet, it is important to note that trust fund balances alone are not a useful reflection of trust fund solvency levels. In fact, there are a number of solvency measures that are utilized to assess the relative strength of the different trust fund balances. The most frequently deployed, the Average High Cost Multiple (AHCM), measures the number of years a state could pay unemployment insurance benefits at peak recessionary levels. The recommended threshold is an AHCM of 1 which indicates that the state can continue making payments for at least one year without collecting any additional revenue. At the end of 2001, while seven of the 16 SLC states met this target, Mississippi (1.87) and Georgia (1.39) led the SLC. Texas (0.14) was the SLC state with the lowest AHCM rate.

Another solvency measure, the High Cost Multiple (HCM), incorporates the state's own eligibility requirements, benefit history and unique experience with periods of high unemployment over several decades. Once again, the recommended measure is 1. While the U.S. average here at the end of 2001 was 0.54, the SLC average was slightly better (0.57). Only Mississippi (1.49), Louisiana (1.15) and Oklahoma (1.08) exceeded the recommended level, while Texas (0.13), Missouri (0.20) and North Carolina (0.25) had exceedingly low HCM rates.

The final measure of trust fund solvency involves the fund's reserves relative to total payroll. This measure, expressed as a percentage, divides a state's trust fund balance by the dollar value of all payrolls covered by the unemployment insurance program. At the end of 2001, the SLC average was 1.28 percent and the U.S. average was 1.2 percent. Leading the SLC were Louisiana (3.53 percent), Mississippi (2.93 percent) and West Virginia (1.71 percent). Texas and Missouri (0.15 percent and 0.40 percent, respectively) had the distinction of holding the last two spots in the SLC.

While the measures of trust fund solvency remain important to rating agencies and other officials analyzing economic trends in the states, the benefit amount and the eligibility criteria for receiving these benefits remain the items most important to unemployed workers. Both these criteria vary greatly from state to state with the individual states maintaining a great deal of latitude in deciding on the maximum weekly amount and benefit requirements. Nationally, there has been some fluctuation in the percentage of unemployed workers qualifying for unemployment insurance payments, i.e., the reciprocity rate, in the last 50 years or so, with the rate hovering around 49 percent in the 1950s, increasing to over 75 percent during the height of the 1974-75 recession and leveling off at about 35 percent in the 1990s. More recently, in 2000 and 2001, the national reciprocity rates were 40 and 45 percent, respectively. In the SLC, in 2001, Arkansas had the highest reciprocity rate (56 percent) and Louisiana had the lowest (23 percent). The SLC average was 37 percent, well below the U.S. average (45 percent). In terms of weekly benefit payments, currently among the SLC states, North Carolina provided the highest amount (\$396) and Alabama the lowest (\$190). Several SLC states, Alabama, Mississippi and Georgia, have plans to increase their maximum weekly benefit amounts shortly. On average, SLC states paid a maximum of \$268 per week.

In conclusion, the issues related to unemployment insurance remain pivotal to the thousands of unemployed workers across the country. While the overall health of the economy and the impact of federal actions on state budgets are highly relevant discussion points, alleviating the financial burdens faced by the many unemployed workers and hastening their transition to the ranks of the employed, undoubtedly remain the focus of policymakers. During the current spell of high unemployment across the country, there has been a great deal of evaluation by analysts of the low reciprocity rates and low maximum weekly benefit payments in certain states. These analysts highlight the fact that states with healthy, relatively solvent trust funds and well-balanced tax systems are soundly positioned to offer greater weekly benefits under less stringent eligibility criteria to unemployed workers. Similarly, states with tenuous trust fund balances and low reciprocity rates should re-assess their programs and initiate action to bolster their trust funds and expand access to benefits. Hence, when states find that even after a decade of unparalleled economic growth, not only are their unemployment trust funds in poor fiscal shape, the percentage of unemployed workers receiving benefits is abysmally low, the necessity for reforming their unemployment insurance program remains crucial. Not only do unemployment benefits help unemployed workers and their families in meeting essential expenses, these benefits also serve to stimulate the local economies. For policymakers across the South, the variables of unemployment insurance benefits, coupled with trust fund solvency, pose a significant—and infrequently addressed—challenge during the current era of a diminishing economy.

Endnotes

- ¹ “GDP News Release,” U.S. Department of Commerce, April 26, 2002.
- ² “U.S. Economy Grew at 1.7 Percent Rate,” *The Baltimore Sun*, March 28, 2002.
- ³ “Statement of Labor Secretary Chao Regarding the Unemployment Numbers Released Today,” U.S. Department of Labor, January 31, 2002.
- ⁴ “The Employment Situation: News Release,” U.S. Department of Labor, February 1, 2002.
- ⁵ “GDP News Release”
- ⁶ “The Budget and Economic Outlook: Fiscal Years 2003-2012,” Statement of Dan L. Crippen, Director, Congressional Budget Office before the Committee on the Budget, United States Senate, January 23, 2002.
- ⁷ “Tax Revenues Lag, Threatening to Double Deficit,” *The New York Times*, April 26, 2002 and “Agency: Deficit Likely Above \$100 Billion,” *The New York Times*, June 15, 2002.
- ⁸ “State Fiscal Update for FY 2002–April 2002 Update,” National Conference of State Legislatures, April 2002.
- ⁹ “State Fiscal Update–June 2002,” National Conference of State Legislatures, June 4, 2002.
- ¹⁰ “State’s Revenue Gap Widens,” *The North Carolina News & Observer*, May 2, 2002.
- ¹¹ “State Agencies Asked to Hold 5%,” *The Mississippi Clarion-Ledger*, June 14, 2002.
- ¹² “Musgrove: Medicaid Solution ‘Within Reach,’” *The Mississippi Clarion-Ledger*, April 23, 2002.
- ¹³ “Despite Gain in May, Tax Collections Still Down,” *The Tennessean*, June 12, 2002 and “6% Income Tax Plan Proposed in the Senate,” *The Tennessean*, June 27, 2002.
- ¹⁴ “Analysts Dispute Budget Proposal,” *The Baltimore Sun*, January 22, 2002.
- ¹⁵ “Pataki’s Budget Would Close \$5 Billion Gap,” *The New York Times*, January 23, 2002.
- ¹⁶ “Worst Job Loss for New York in a Decade,” *The New York Times*, March 6, 2002.
- ¹⁷ “Schools, Fire Crews Face Cuts Across US,” *The Christian Science Monitor*, April 24, 2002.
- ¹⁸ “New Jersey Governor Announces Layoffs,” *The New York Times*, January 23, 2002.
- ¹⁹ “Rowland Hints at Layoffs and Tax Rise on Cigarettes,” *The New York Times*, January 23, 2002.
- ²⁰ “California Faces Almost \$24 Billion Deficit, Davis Says,” *The Washington Post*, May 15, 2002.
- ²¹ Conventional economic wisdom dictates that when an economy experiences two consecutive quarters of negative GDP growth, that economy is in recession. Given the fact that the latest GDP numbers from the U.S. Department of Commerce indicated that the U.S. economy actually expanded in the fourth quarter of 2001 by 1.7 percent (after experiencing a negative 1.3 percent growth in the third quarter), it is appropriate to clarify whether the economy is officially in a recession. (As noted on page 1, U.S. Treasury Secretary Paul

O'Neill contends that the economy did not fall into a recession last year). As the noted economist and former head of Georgia State University's Economic Forecasting Center Donald Ratajczak states, while certain "economists might even suggest that the gain [the 2001 fourth quarter GDP gain] eliminates the recession designation," "[T]here is virtually no likelihood that the recession will be declared to never have existed." ("Recession," *The Atlanta Journal Constitution*, February 3, 2002.) According to Ratajczak, the recession designation is more than justified given the loss of 1.2 million jobs across the country, widespread employment declines in a cross-section of industries, an almost 2 percentage point rise in unemployment and the second-lowest use of available capital since World War II.

²² "The Struggle with Jobless Benefits," *Governing*, January 2002.

²³ "New York, Texas Seek Jobless Aid from U.S.," *The Washington Post*, February 1, 2002.

²⁴ "Failing to Save for Bad Times," *The New York Times*, February 6, 2002.

²⁵ The 16 states in The Council of State Governments' Southern Legislative Conference are Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, Missouri, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia and West Virginia.

²⁶ The following section on the broad trends of the employment surge in the 1990s, unless otherwise specified, draws on Hatch, Julie and Clinton, Angela, "Job Growth in the 1990s: A Retrospect," *Monthly Labor Review*, U.S. Department of Labor, December 2000.

²⁷ Greenspan, Alan. Chairman, Federal Reserve Board, Testimony before the Committee on Financial Services, U.S. House of Representatives, February 27, 2002.

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²⁹ "The Employment Situation: May 2002," U.S. Department of Labor, Press Release, June 7, 2002.

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notes



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