

Innovative State Reforms Shape New National Economic Security Plan for the 21st Century

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I. INTRODUCTION

Despite record corporate profits, today's workers from nearly all walks of life are exposed to far more economic risk compared to any period in decades. In fact, for the first time in recent history, even periods of economic recovery are producing only limited economic gains for most working families in the United States.

Long gone are the days when a recession ended and most laid-off workers eventually returned to good-paying jobs. Now, even five years after the 2001 recession officially ended, job creation is still remarkably weak compared to prior recoveries and more people are out of work for longer periods of time.¹ And when they find work, today's families share far less in the benefits of the recovery while they are also exposed to far more economic risk.² Given these new realities, it is not surprising that most Americans continue to harbor a negative view of the nation's economy.³

The hardship caused by the "great risk shift" extends beyond those families who end up destitute because of a permanent layoff or any number of other serious financial blows that routinely inflict working families.⁴ Because of the limited protections to guard against these severe economic risks – protections which were once part of the social contract between workers, their employers and their government - the health of the nation's economy is jeopardized as well.

Indeed, a stable workforce protected against economic risk is also a more productive workforce, which promotes more sustainable economic growth. That was part of the special vision of social insurance programs, such as unemployment insurance, which were created by the 1935 Social Security Act. By insuring against economic risk, these programs were designed to serve all workers and their families, not just the most destitute. Thus, unemployment benefits put food on the table, but they also helped to pay the mortgage and prevent the loss of one's home, which kept the entire community stable until the economy picked up again.

Today, the stakes are even higher for working families and their communities. Because it takes much longer to find work and it is becoming harder keep a good job, more workers are suffering a dramatic drop in income when they fall on hard times. Indeed, the chances of experiencing a 50% drop in income for the average American has reached record levels in recent years, while the average drop in income rose to 40% in the 1990s compared to 25% in the 1970s.⁵ Thus, the time has come to seriously question whether the nation should do more to prevent these events from destroying a lifetime of hard work in pursuit of the American dream.

Fortunately, innovative reforms have been adopted by many states – often building on the structure of the unemployment insurance program – to create new social insurance systems that provide health care coverage to the unemployed, paid family and medical leave, and other key benefits to protect against major economic risks. These state innovations can be effectively coupled with federal reforms – responding to economic hardship triggered by national events, including recessions, global trade, disasters and terrorist events – to forge a new economic security plan for the 21st century.

What follows is a more detailed discussion of our proposed national economic security agenda, which is shaped by the experience and know-how of the states. The specific protections provide not only financial support to prevent family economic hardship, but they also go a long way to avoid layoffs and promote better quality jobs. The paper makes the case for the initiative by featuring profiles of key reforms, along with the estimated costs, new dedicated sources of funding, and the significant return on investment generated by the new policies. In the process, we hope to contribute more of a state perspective to the emerging debate that is taking a fresh look at the nation's economic security programs in light of the new demands of today's working families.

Key Features of the Economic Security Plan

- A new vision of the 1935 Social Security Act which incorporates model state reforms that support working families while also promoting state flexibility and innovation (Part I).
- New national reforms to address the economic hardship caused by recessions, global trade, national emergencies (including natural disasters and terrorist events) and hard-core joblessness (Part II).
- A new commitment of resources involving employers, workers and government, generated by a cost of living adjustment to the federal unemployment payroll tax and partial funding for certain new enhanced benefits generated by contributions from workers.

Part I – Enhanced State Economic Security Benefits

- Fill the gaps in the unemployment insurance program to cover the changing workforce of low-wage, part-time and women workers.
- Provide 12 weeks of paid family and medical leave, comparable to the weekly benefits provided by state unemployment insurance.
- Provide subsidized health insurance to the jobless and full coverage to laid-off low-income jobless families, coordinated with the state's unemployment program.

- Create a “home protection fund” providing laid-off homeowners with a loan to cover their mortgage, supported by a revolving fund created for those who can show economic need and the prospect of reemployment.
- Subsidize special state funds to increase training and education for both current and laid-off workers and help make state industries more globally competitive.

Part II – Modernizing the Federal Economic Security Programs

- Expand the federal program which provides benefits to workers who have lost their jobs due to trade by providing far more adequate funding to support training and by covering service workers, not just manufacturing workers.
- Fix the federal program of jobless benefits for those who are unemployed as a result of a national recession, providing additional benefits that correspond with the new realities of long-term unemployment and increased support to those states hit hardest by recessions.
- Revamp the federal program for those left jobless by natural disasters and terrorist events, replacing more adequate federally-funded “disaster unemployment assistance” for state-funded unemployment benefits.
- Respond to entrenched joblessness in low-income communities with a national investment in “transitional jobs” modeled on the successful state programs that have dramatically improved the job prospects and earnings of the hardest to employ.

II. BACKGROUND

A. More Economic Risk, Yet Growing Gaps in the Safety Net

The underlying economic anxieties of everyday Americans are rooted in some of the most tangible concerns facing the nation today. Indeed, in nearly every major area where working families are forced to cope with economic hardship, corporate priorities and government policies have largely abandoned them.

- **Downsizing & Globalization:** While record numbers of good-paying manufacturing and technology jobs are being off-shored due to globalization and the nation's trade policies, federal policies fail to provide training and other necessary services to all but a small minority of these jobless workers.
- **Health Insurance for Jobless Workers:** While only one in five workers who lose their jobs enroll in COBRA coverage due to the prohibitive cost of health care premiums, no federal policies support health care for jobless families until they find themselves destitute and eligible for Medicaid.
- **Family & Medical Leave Transitions:** While many more workers have to take time off from their jobs to care for sick and aging family members or a newborn child, two-thirds of those eligible for federally-mandated leave cannot afford to take it because of the absence of guaranteed *paid* family and medical leave.
- **Long-Term Joblessness:** Although today's changing economy produces more job turnover for record periods of time, far fewer unemployed workers are entitled to collect jobless benefits (only 36% of the unemployed collect jobless benefits, down from 60% in the 1960s).

- **Home Foreclosures on the Rise:** While there has been a 250% increase in home foreclosures in the past two decades, no federal policies provide direct loan repayment support to help tide over these families to save their homes and preserve the fabric of their communities.

- **Economic Hardship Caused by Major Disasters:** Hurricane Katrina, and the events of September 11th just four years earlier, provided a sobering reminder of the devastation caused by disasters and the conspicuous lack of federal response to help unemployed families and communities in need.

The irony, of course, is that it is these same hard-working families who are also keeping the economy afloat, with their continued spending on major goods and services despite record-high fuel, housing and health care costs.

B. Time for a Comprehensive Economic Security Agenda

Rallying around the theme of an "ownership society," the Bush Administration and some in Congress advocate for an even more dramatic shift in corporate and governmental priorities that seeks to undermine support for universal safety net benefits. While documenting the evolution of these "you're on your own" policies, economist Jared Bernstein's new book (*All Together Now*) accurately characterizes their intent to "continue and even accelerate the trend toward shifting economic risks from the government and the nation's corporations onto individuals and their families."⁶

While the failed attempt to privatize Social Security is the most celebrated example, President Bush has also called for "personal reemployment accounts" (recently relabeled "career advancement accounts"), which is an individual voucher system that would effectively dismantle today's federal training system while

providing \$600 million less in the way of critical retraining and other worker programs.⁷ Going even further, the conservative Heritage Foundation has called on Congress to eliminate unemployment insurance and instead create “personal employment insurance savings accounts (PESA) that can be drawn down in the event of an unemployment spell – with the key distinction that PESAs are personal property.”⁸

Others have challenged the proponents of the “ownership society” to a debate on the merits of their agenda, including new leaders in Congress like Senator Barack Obama of Illinois. “It won’t work,” concluded Senator Obama in a speech to the graduating class of Knox College in Galesburg, Illinois, which was the main depot for the Underground Railroad. “It ignores our history. . . . Our economic dominance has depended on individual initiative and belief in the free market, but it also depended on our sense of mutual regard for each other, the idea that everybody has a stake in the country, that we’re all in it together and everybody’s got a shot at opportunity – that has produced our unrivaled political stability.”⁹

What’s the nation’s alternative? “So let’s dream,” says Senator Obama. “Instead of doing nothing or simply defending the 20th century solutions, let us imagine together what we could do to give every American a fighting chance in the 21st century.” Indeed, all those who are concerned for the economic security of today’s working families are now in a unique position to forge a new debate on these issues of critical significance to everyday working Americans. Coupled with the new balance of power in Congress, there is a special opportunity to move a serious agenda that responds to the families forced to cope with the new realities of economic insecurity.

C. The Future is Here, Building from Innovative State Reforms

The call to dream, and the hard work of forging 21st century reforms responding to the needs of today’s working families, has already been heard in many states and in local communities in every region of the nation. Thanks to a remarkable new state movement of organizing and advocacy, model policies are now in place that can and should provide the key elements of a comprehensive national economic security agenda.

For example, consider the following reforms that have been adopted by the states to strengthen families in times of special need and promote more stable communities:

- California recently implemented the nation’s first program of paid family and medical leave, which has helped generate active campaigns in many states;
- In more than half the states, labor and community alliances have successfully expanded the unemployment insurance safety net to meet the needs of the changing workforce of women, part-time and low-wage service workers;
- North Carolina recently created a self-sustaining loan program that prevents home foreclosures on the part of families facing temporary financial hardship;
- Massachusetts finances 80% of COBRA continuation coverage for families collecting unemployment benefits, while also creating a BlueCross/Blue Shield plan for those who were not covered by health insurance by their previous employers.

As Professor Gar Alperovitz has persuasively argued, these types of state reforms “nurture the kind of on-the-ground experience which can ultimately become the basis of the next national progressive vision. That, in fact, is precisely what happened in the boldest era of American development: A nation in great pain turned to the New Deal – which, when the right moment arose, translated important state and local precedents into federal policies that ultimately transformed the nation.”¹⁰

Today’s model state initiatives go a long way to help inform options for bold new federal policies. Equally important, however, a new comprehensive national agenda grounded in progressive state reforms can also fuel even more successful state experimentation. In our view, that is a critical component of a new national economic security agenda. If done right, it can raise the profile of state reforms in other communities, help generate the resources and coordination necessary to expand their scope, and offer a vision for how individual policies can come together – strategically and programmatically – as part of a larger reform agenda that resonates broadly with today’s families.

III. THE FRAMEWORK FOR A NATIONAL AGENDA

To help promote this vision of a national agenda that also nurtures the progressive movement in the states, we offer a framework that is intended to be flexible in its design while also incorporating specific reform proposals. It is thus a template of sorts, with the goal of promoting a national discussion informed by the successful experience of the states.

The key themes of this national agenda include:

- A new vision of the 1935 Social Security Act which incorporates model state reforms that support working families while also promoting state flexibility and innovation (Part I).
- New national reforms to address the economic hardship caused by recessions, global trade, national emergencies (including natural disasters and terrorist events) and hard-core joblessness (Part II).
- A new commitment of resources involving employers, workers and government, generated by a cost of living adjustment to the federal unemployment payroll tax and partial funding for certain new enhanced benefits generated by contributions from workers.

A. State-Based Enhanced Economic Security Benefits (Part I)

Part I of the Economic Security Safety Net Plan described in Section IV features a new state-based program of enhanced benefits to protect against economic risk for today's working families.

Like the unemployment insurance and Social Security systems, most of these enhanced state benefits would be designed as insurance for all families, not based on individual financial need. The economic "risk" is shared – not shifted to the individual – based on payments that are made for each worker into a pooled fund which then

distributes the benefits when needed. By pooling the risk, the program helps promote the message that "we're in this together," a core theme which economist Jared Bernstein describes as "an economic architecture that reconnects our strong, flexible economy to the living standards of all, not just the residents of the penthouse. As the pie grows, all the bakers get bigger slices."¹¹

Of special significance, some of the new enhanced state benefits under the proposed initiative (not including unemployment insurance reforms) could also be funded jointly by employer assessments, worker contributions, and federal revenues. The proposal to generate worker contributions for new enhanced benefits, like paid family leave, is intended to help offset the funding of these programs while also providing greater ownership over the direction of the programs by workers and not just their employers.

Indeed, in New Jersey and other states where employee contributions already help fund temporary disability insurance, unemployment benefits and worker retraining, these programs tend to include a much higher standard of coverage and benefits for working families. In Canada as well, employers, workers and the government share in funding a broad-based system of worker benefits called "Employment Insurance," which includes unemployment benefits operated jointly with their system of paid family leave.

Also like unemployment insurance, the states could be compelled to take part in the new state-based enhanced benefits or else forgo the substantial federal tax credit which is provided to employers on their unemployment payroll contributions. The tax credit could also be structured to include contributions by employers to the new system of enhanced state benefits. If necessary, other financial incentives could be developed to ensure the full participation by the states and employers in the program.

B. Federal Initiatives Protecting Against National & Global Economic Risks (Part II)

Part II of the Economic Security Safety Net Plan described in Section IV seeks to modernize and expand the federal commitment to workers negotiating the new demands of globalization and an economy now subject to the increased risks of natural disasters and terrorist events. Specifically, *Part II* reforms the program designed to support the growing numbers of workers who are laid-off because of trade (Trade Adjustment Assistance) and those who increasingly suffer from extended layoffs due to recessions and slow job growth. In addition, the federal program promotes new strategies to create jobs in those areas hardest hit by layoffs and for those deserving families out of work for long periods of time who benefit from structured training and jobs programs.

C. Expanding Funding, While Reducing Discrimination Against Low-Wage Employers

The costs of new state and federal benefits can be offset, in part, by starting to index the amount of wages that are taxed for federal unemployment insurance purposes and applying the increased revenue to the new state and federal benefits. The wage base of the federal unemployment tax has been just \$7,000 per worker since 1983 (up by only \$4,000 since it was established in 1939). This system effectively subsidizes employers of higher-wage workers who are typically in the best position to help fund the program.

Because unemployment taxes are largely passed on to workers, the current system also penalizes low-wage workers.¹² It also discriminates against their employers, including small businesses that generate large numbers of jobs. If adjusted for inflation just since 1983, the tax base on wages would now total \$18,000. At the current tax rate for unemployment benefits (.08% per worker), an increase in the federal “taxable wage base” would generate about \$7-\$10 billion each year in additional federal revenue to support the initiative.

IV. THE NATIONAL ECONOMIC SECURITY PLAN

PART I – ENHANCED STATE ECONOMIC SECURITY BENEFITS

A . Unemployment Insurance (UI)

- **Fill the gaps in the unemployment insurance program to cover the changing workforce of low-wage, part-time and women workers.**

While the workforce has changed fundamentally since the unemployment insurance (UI) program was created in 1935 as part of the Social Security Act, the UI system has failed to keep pace with the vast growth of women workers, part-time, temporary and low-wage service sector workers. As a result, only 36% of unemployed workers now collect jobless benefits. Low-wage workers are half as likely to collect benefits, even when they work the same hours as higher wage workers.

State Model

Responding to the challenge of the 1996 welfare law to “make work pay,” more than half the states have adopted major reforms to fill the gaps in their UI program to cover low-wage, part-time and women workers. These reforms, covering states as diverse as Georgia, New Mexico, Washington, North Carolina and Maine, have benefited thousands of hard-working, low-wage families. For example, after Michigan recently expanded coverage for low-wage workers, 27,000 more low-income families qualified for jobless benefits each year, collecting an average of \$232 a week (compared to \$97 in state welfare benefits).¹³ And when Maine expanded unemployment benefits for part-time workers, over 70% of the families who received more than \$2,000 in unemployment benefits were headed by women.

Costs & Return on Investment

In 2000, a national “consensus” reform proposal was agreed to by business, labor and government officials, which included a comprehensive range of state UI

reforms costing \$1.5 billion annually.¹⁴ The agreement was later abandoned by the business community when President Bush took office and the balance of power shifted in Congress. If adopted, however, the necessary funding for these reforms could be generated by increasing the current \$56 per worker paid in federal UI payroll taxes by about \$10. As described above, the federal unemployment tax has remained unchanged since 1983. In addition, as documented by U.S. Labor Department studies, millions of dollars in additional revenue can be generated by targeting those industries that routinely fail to pay their UI taxes by misclassifying their workers as “independent contractors.”¹⁵

Exhaustive studies have concluded that unemployment benefits provide a major boost to the economy in those communities hardest hit by layoffs (by a factor of \$2.15 for every dollar spent in benefits).¹⁶ The system promotes productivity by allowing workers to match their skills to the best job, which means they receive higher pay as well (by a factor of \$240 a month for those who collect benefits, compared to those who do not).¹⁷ A recent study also found that receipt of unemployment benefits raises the likelihood that the new job will have employer-sponsored health insurance.¹⁸ When unemployment benefits are available, the nation’s employers directly benefit as well because they are able to preserve their workforce during periods of temporary layoffs.

B. Family & Medical Leave Insurance

- **Provide 12 weeks of paid family and medical leave comparable to the weekly benefits available as part of the state unemployment insurance programs.**

Despite the major expansion of women in the workforce and the aging baby boom population now caring for

their parents, the United States and Australia are the only industrialized nations that still do not provide for paid family leave. Since 1993, the Family and Medical Leave Act (FMLA) has helped 50 million Americans with up to 12 weeks of job-protected leave. But the promise of family leave will never be a reality for millions of Americans who cannot afford to take time off from their jobs without pay. Indeed, of those workers who need family and medical leave but did not take it, 78% said they could not afford to take unpaid leave.¹⁹ For those who are forced to take leave without pay, large numbers end up declaring bankruptcy and applying for public assistance instead.

State Model

In 2004, California became the first state in the nation to provide paid family and medical leave, covering over 13 million workers. Building on the state's temporary disability insurance (TDI) program, California provides six weeks of paid family and medical leave replacing 55-60% of an individual's weekly wages (up to a cap of \$728 a week). Several other states (New York, New Jersey, Rhode Island, Hawaii, and Puerto Rico) also have TDI programs that provide partial wage replacement to workers who are temporarily unable to work for medical reasons. Polls show that 84% of Americans support expanding TDI or unemployment insurance programs to provide paid family and medical leave. Active campaigns in a number of states, including Massachusetts, Washington, New Jersey and New York, have forged growing support for paid leave.²⁰

Costs & Return on Investment

California's six-week paid leave program is funded exclusively by contributions from the state's workers, at an annual cost of about \$27 per individual. The other states that operate temporary disability insurance programs are funded by a combination of employee and employer contributions. By failing to provide paid family and medical leave, the nation's employers suffer serious costs due to increased job turnover. According

to a California study, about 80,000 workers would have returned to their jobs had they been entitled to paid family leave. The termination costs to employers averaged \$1,100 per worker.²¹ Another recent study found that 90% of those who accessed California's program returned to work for their same employer after their leave.²²

C. Health Insurance for Jobless Families

- **Provide subsidized health insurance to the jobless and full coverage to laid-off low-income jobless families, coordinated with the state unemployment programs.**

As employer-sponsored health care costs exceed record levels, only one in five people eligible for COBRA is able to take advantage of the benefits.²³ The loss of health care coverage due to unemployment takes a severe toll not just on working families, but also on the state budgets that fund Medicaid programs, especially in high unemployment states. The unemployed are also the most likely to be uninsured. Indeed, the health care crisis facing the unemployed is so severe that when the last recession hit, even President Bush called for \$7 billion in health care coverage for laid-off workers.²⁴ While the measure stalled over differences in Congress related to the design of the program, the President's position reflects a growing consensus for subsidized health care of those who find themselves unemployed.

State Model

Since 1988, Massachusetts has provided temporary health care coverage to those who qualify for jobless benefits if their income is below 400% of poverty (or \$77,400 for a family of four).²⁵ The program, called the Massachusetts Medical Security Plan (MSP), provides 80% reimbursement for continued COBRA coverage (capped at \$790 a month for a family plan) for those who were previously insured by their employers. For

those who were not previously insured or have family incomes of less than 200% of poverty (or \$38,700 for a family of four), Massachusetts provides a direct coverage plan established with Blue Cross/Blue Shield. Reflecting the special need for the program during hard economic times, the average enrollment in the MSP increased threefold during the last recession (from about 7,000 in 2001 to more than 25,000 in 2003).

Costs & Return on Investment

The Massachusetts Medical Security Plan is funded by an employer payroll assessment of \$16.80 per worker, which is deposited into a special state trust fund. 50% of the Massachusetts program is also subsidized by the federal government under a Medicaid waiver. In addition to the savings in the form of Medicaid expenditures, the return on investment of health care coverage for the uninsured is generated by the shift in public resources required to pay for emergency care (for example, the uninsured are four times more likely to use emergency rooms) and other expensive medical services disproportionately relied upon by the uninsured.

D. Home Protection During Economic Hard Times

- **Create a “home protection fund” providing laid-off homeowners a loan to cover their mortgage supported by a revolving fund for those who can show economic need and the prospect of reemployment.**

As the economy leaves more families stretched to the limit and with mortgage lending institutions aggressively marketing questionable loans, the number of foreclosures in the U.S. has skyrocketed. In just two decades (from 1980 to 2001) the number of home foreclosures increased by 250%.²⁶ The number of foreclosures reached nearly 850,000 in 2005 alone, up 25% in less than a year.²⁷ A number of states, including

Ohio, Texas, Florida, New Jersey and Georgia, were especially hard hit with major increases in foreclosures last year. Despite this still-growing community crisis, there is no direct loan assistance to help families keep their homes and maintain the fabric of their communities.

State Model

In response to the state’s struggling economy, North Carolina created a “home protection fund” pilot program in 2004 to prevent home foreclosures. The program makes no-interest loans to laid-off families in high unemployment areas of the state.²⁸ It provides long-term loan assistance for up to 16 months for jobless families who can show reasonable prospects of resuming their mortgage payments. It also provides more short-term loan assistance to cover mortgage debts for those who have found new jobs or are in retraining. The North Carolina initiative is modeled on a successful Pennsylvania program (Homeowners’ Emergency Assistance Program) that has been in place since 1983. Pennsylvania covers not only the unemployed, but also those facing other financial hardships like medical emergencies.²⁹ Pennsylvania’s program has helped over 25,000 families (90% of all those provided loans) to maintain their homes with up to 24 months of loan assistance.

Costs & Return on Investment

Like the Pennsylvania program, the North Carolina Home Protection Fund is designed to be self-sustaining over the long-term. Its state funding has increased to \$3 million as the program has expanded from eight to 27 counties, which will be supplemented by a revolving loan fund generated by repayments from assisted homeowners.³⁰ Especially when the home protection funds reach the point where they become self-sustaining, the return on investment of the program is beyond dispute. The program prevents bankruptcies when families are forced to foreclose on their homes, and they preserve the economic vitality of vulnerable communities hard hit by major layoffs.

E. State Retraining Funds

- **Subsidize special state funds to increase training and education for laid-off workers and help make state industries more globally competitive.**

In 2003, the number of workers who were laid-off as part of a major plant closing reached a 20-year high, due in large part to globalization and outsourcing of manufacturing jobs. The recent layoffs in the auto industry, including Delphi and other major auto suppliers, are the latest example of the large-scale loss of manufacturing jobs creating new levels of economic hardship in the Midwest. Despite these record layoffs, the federal commitment to retraining and education has continued to decline. Only a handful of those who desperately need to upgrade their skills are provided the means to do so. However, with the creation of special training funds, some states have developed partnerships with major industries to help make their local economies more competitive and save good-paying jobs.

State Model

Almost half of the states have created specialized retraining and basic education funds for laid-off and current workers.³¹ New Jersey's program (the Workforce Development Fund) is among the most successful, generating more than \$90 million each year and providing training to nearly 35,000 workers. While some state programs are limited to workers in specific industries, New Jersey's training and education program also serves current workers to help make key state industries more competitive. It also provides "individual training grants" of up to \$4,000 to laid-off workers and "basic skills training" to the large number of workers requiring basic math, literacy and English-as-a-Second-Language education.

Costs & Return on Investment

The state programs are most often funded by a payroll contribution which is offset against the employer's state unemployment payroll tax. Several state studies have documented the significant return on investment of these programs, benefiting employers and the communities where the workers live and work. For example, California's Employment Training Fund (which is offset against the state's UI payroll tax, totaling \$8.10 per worker) provides a return on investment of \$5 for every \$1 spent on the program (measured by benefits to employers, workers and the California economy).³² An evaluation of Washington's workforce development programs documented that the benefits to participants exceed the costs of the program by a factor of 16 to 1.³³ Tax receipts alone, generated by those employed as a result of the program, far outweighed the costs of Washington's program.

PART II – MODERNIZING THE FEDERAL ECONOMIC SECURITY PROGRAMS

A. Trade Adjustment Assistance (TAA) Reform:

- **Expand the federal trade program by providing far more adequate funding to support worker training and by covering service workers, not just manufacturing workers.**

The U.S. trade deficit recently hit a record \$900 billion (7% of the nation's Gross Domestic Product).³⁴

The nation's trade imbalance and trade policies have caused major layoffs in manufacturing and other good-paying jobs. Meanwhile, the major federal program created to serve workers who lose their jobs because of trade, called Trade Adjustment Assistance (TAA), has been severely under-funded compared to the desperate demand for TAA services.

TAA was created in 1974 to provide up to 78 weeks of extended unemployment benefits to help workers participate in up to two years of retraining funded by the program. However, because of funding limitations and training restrictions, only 50,000 workers received TAA-funded training last year. By comparison, job losses due to trade exceeded three million during the period from 1994-2000 when NAFTA was implemented.³⁵

Key Federal Reforms

- **Fully Fund Training & Other Critical TAA Services:** Despite the record trade deficit, Congress recently capped TAA training funds at just \$220 million. As result, 19 states suspended enrollment in training at some point between Fiscal Years 2001 and 2003 because they lacked adequate TAA training dollars.³⁶
- **Expand Coverage to Service Workers Impacted by Trade:** Under the 1974 law, only manufacturing workers are eligible for TAA services (that is, those workers who produce "articles," not services). The program does not cover the thousands of technology and service sector workers who now also find themselves jobless when their employers outsource to companies overseas. The TAA law should cover these service workers, but only if the program is fully funded commensurate with the significant demand for increased services.
- **Remove Arbitrary Training Restrictions:** Current law requires that TAA recipients be enrolled in training no later than 16 weeks after they were laid off or 8 weeks after their plant has been certified as eligible for the TAA program. Because these strict deadlines do not coincide with the schedules of many community college and training programs, large numbers of otherwise eligible workers cannot access TAA funding to pay for their training.
- **Reform TAA's Health Care Coverage:** In 2002, Congress created the Health Care Tax Credit for TAA-eligible workers, establishing a significant precedent to provide subsidized health care to the unemployed. However, because the tax credit covers only 65% of the COBRA continuation coverage, it is far too expensive for most laid-off workers. As a result, enrollment in the program has been very limited. In order to expand participation in the program, the program should provide at least 90% of COBRA coverage. In addition, the federal employee health care plan should be provided to any worker who does not have access to COBRA from their prior employer or cannot afford the COBRA coverage.

Costs & Return on Investment

Researchers estimate that major reforms to the TAA program would total \$3 billion a year to cover unemployment benefits, health care assistance and training, which compares to the less than \$1 billion a year currently spent on the program.³⁷ The Congressional Budget Office estimated that TAA training and benefits for service workers would cost \$2.5 billion over 10 years, with an additional 15,000 to 25,000 service workers participating in the program. To help absorb these additional costs, the responsibility for TAA funding should be shifted in substantial part to tariff revenue, not general federal revenues. Dedicated funding for the TAA program could also be generated from the \$20 billion now collected from custom duties.

As described in the discussion of state training funds, well designed training programs generate significant benefits to participants and the economy more generally (with the benefits of the program exceeding their costs by a factor of 5 to 1 in California's program and 16 to 1 in the case of Washington's training initiative). In addition, the TAA supplemental unemployment benefits help absorb the shock to the local economies hit hardest by trade-related layoffs. As described earlier, each dollar spent on unemployment benefits generates at least \$2.15 in economic activity.

B. Reliable Jobless Benefits During Recessions

When recessions hit the United States, the most fundamental responsibility of the federal unemployment system is to protect families against economic hardship when they cannot find work before their 26 weeks of state unemployment benefits run out. With an economy that has recently produced record rates of long-term unemployment and record numbers of workers exhausting their state benefits, the need for an effective

and reliable federal program of extended unemployment benefits is more critical than ever.

What we have instead is a federal system of extended unemployment benefits that is far from reliable or effective. The permanent program of "Extended Benefits" (EB) — created in 1970 to provide an extra 13 to 20 weeks of benefits — is so outdated in how it measures unemployment that it only provided benefits to workers in five states during the 2001 recession.³⁸ During the recession of the early 1980s, when the unemployment rate reached double digits, only 12 states qualified for EB, and only 10 states qualified during the 1990s recession. The problems with EB date back to 1981, when Congress gutted the benefits and eliminated the backup program which kicked-in for all states when the nation's unemployment level reached the required threshold.³⁹

As a result of the deeply flawed EB program, an often divided Congress is now in the business of creating temporary programs of federal extended benefits each time another recession hits. The Congress also has to make the call whether to keep the program running when it is set to expire. As a result, the latest temporary extension (Temporary Extended Unemployment Compensation) did not become law until March 2002, when the number of long-term unemployed had already doubled in just one year. And when Congress shut the program down in December 2003, a record three million workers were scheduled to run out of their regular state benefits without qualifying for any additional federal assistance.⁴⁰

Key Federal Reforms

- **Establish a Permanent Extended Benefits Program:** The first priority should be to adopt a permanent national program – no longer limited to the individual states – which takes effect automatically when unemployment levels and the numbers of workers exhausting their state benefits start increasing substantially.

■ **Increase the Minimum Weeks & Amount of Extended Benefits:** Compared to any other period in decades, a larger percentage of workers are now unemployed for much longer periods of time. For nearly three years straight after the last recession, more than one in five jobless Americans could not find a job after looking for more than six months. During this record stretch of long-term joblessness (lasting until May 2005), the average worker was unemployed for 18-20 weeks. Consistent with these new realities, the federal program should provide a minimum of 26 weeks of benefits. Because of the special reliance on unemployment benefits for those who remain long-term unemployed, the amount of weekly benefits should also be increased by \$50 - \$100 a week (the average benefit is \$268 a week).

■ **Increase Extended Benefits in High Unemployment States:** Taking into account the unique regional and state economies, workers in those states with especially high unemployment should qualify for extended benefits without regard to whether EB has triggered on nationally. If the national rate of unemployment reaches the threshold levels to also trigger on the “all-states” program, those states with especially high joblessness should continue to receive additional weeks of benefits (from 13-26 weeks, depending on the unemployment rate).

Costs & Return on Investment

The federal unemployment financing system was specifically designed to generate large reserves during good economic times to fund benefit extensions and help boost the economy when recessions hit.

The Labor Department projects that the federal unemployment insurance trust funds (which can only be tapped for unemployment benefits) will total \$30

billion next year, while generating another \$7 billion each year in new revenue from unemployment taxes. If the projected federal reserves are combined with a state contribution of 25% to help pay for the proposed payments to “high unemployment” states (states now contribute 50% toward EB payments), sufficient funding will likely be available to finance the proposed EB reforms without generating additional revenue. By comparison, the TEUC program paid \$23 billion in extended benefits during the last recession.⁴¹

The nation’s return on the investment in federal extended benefits is especially well documented. A major study of the 1990s recession found that without extended benefits, over 70% of those who collected UI would have fallen into poverty, compared to 40% who experienced poverty after exhausting their regular state benefits.⁴² The study also found that average earnings when UI recipients first became unemployed was \$673 a week, which would have fallen to just \$183 without federal extended benefits.

As discussed earlier, UI benefits also have a significant positive impact on the economy by circulating hard cash into those communities hardest hit by recessions. Indeed, every \$1 spent on UI benefits generates \$2.15 in economic growth (also saving an average of over 130,000 jobs each recession).⁴³ Last recession, that translated into about \$50 billion in economic stimulus resulting from the TEUC program alone (not including the \$40 billion generated by increased regular state UI benefits in circulation as a result of the recession). The study also found that UI has become an even more substantial economic stabilizer over time. The stronger the state’s unemployment insurance program, the greater the economic stimulus to the struggling economy, especially in high unemployment states that have more robust coverage and benefits.

C. Reform Disaster Unemployment Assistance

In just five years, the nation has suffered the devastating effects of the September 11th terrorist attacks followed by Hurricane Katrina, then Hurricane Rita, leaving hundreds of thousands of families jobless and an economy in serious shock. Despite the magnitude of these events, there remains no effective national program in place to provide the families left jobless from a disaster with the resources they need to rebuild their lives and their communities.

Instead, the only regular source of income available to most families left jobless by a disaster is their limited state unemployment benefits. After cost-cutting reforms to the program adopted in 1988, the federal Disaster Unemployment Assistance (DUA) was restricted to those workers who do not qualify for regular state jobless benefits, mostly including the self-employed. By shifting the responsibility from federal FEMA funding to the individual state unemployment programs, jobless families are often left with extremely limited support when they need the help most. At the same time, employers and the disaster states are left paying the extra costs of program when they can least afford to do so.

Key Federal Reforms

- Remove the federal restriction requiring unemployed families from disaster areas to collect limited state unemployment benefits rather than federally-funded Disaster Unemployment Assistance (DUA).
- Establish a minimum DUA benefit of \$400 a week, which is 1.5 times the national average unemployment benefit in the states (compared with the average DUA benefit of \$98 a week provided to the Louisiana families unemployed by Hurricane Katrina). As now required, the maximum DUA benefit would be determined under the state's UI law.
- Extend the maximum period of DUA benefits from 26 weeks under the current federal law to 52 weeks to account for the especially severe economic hardship caused by today's disasters and the new realities of long-term joblessness.⁴⁴ Before the 1988 amendments to the DUA program, DUA benefits lasted up to 52 weeks. They were extended to 39 weeks in both the case of the September 11th attacks and Hurricanes Katrina and Rita.

Costs & Return on Investment

Of course, the federal costs of an expanded DUA program will depend on the magnitude of the next terrorist event or disaster. It will also depend on the maximum level of UI benefits provided by the disaster state.⁴⁵ In Louisiana, for example, the maximum unemployment benefit is \$258 a week, while the maximize benefit of 17 states is above the proposed \$400 minimum weekly DUA benefit. Assuming another serious disaster on the scale of Hurricane Katrina, which left more than 500,000 workers jobless, the expanded DUA reforms would cost roughly \$5 billion to \$10 billion in FEMA funding. The return on investment of these reforms – measured in terms of economic stimulus to the disaster states, a reliable source of income for families in desperate need of support, and funding otherwise spent by the states and the federal government in the form of UI benefits and public assistance – far exceeds the costs.

D. Dedicated Funding for Transitional Jobs Programs Serving the Hard to Employ

As exposed by the events following Hurricane Katrina, our nation has conspicuously failed to take care of those who have the least financial means to get by. Focusing on the chronic lack of employment opportunities in far too many communities, *Part II* of the economic security agenda also includes dedicated federal funding for a promising new model of “transitional jobs” for those who are having the hardest time finding work and building the skills necessary to stay employed and move up the income ladder.

Transitional jobs programs have employed about 30,000 workers in more than half the states. In contrast to punitive welfare-to-work programs like workfare, subsidized transitional jobs provide a paycheck, substantial income generated by the Earned Income Tax Credit (up to \$4,400 for a family of three), along with training and other necessary services.⁴⁶ Based on this comprehensive approach, program evaluations have found that transitional jobs significantly increase employment and earnings of especially hard-to-employ adults and youth.⁴⁷

Despite their success in recent years, transitional jobs programs have struggled to survive on limited and temporary federal funding. A federal commitment of dedicated funding and resources for transitional jobs, commensurate with the need in our communities, will help move the nation closer to the promise of economic opportunity.

Costs and Return on Investment

The typical worker in a transitional jobs program is employed 30 hours a week for three to six months, at an average cost of \$1,125 per month. If expanded to serve 50,000 hard-to-employ adults and young people, a dedicated federal program would cost roughly \$250 million. With placement rates in unsubsidized jobs averaging between 81% to 94%,⁴⁸ and an increase in earnings often exceeding 60%, the return on investment would be significant. When compared with unpaid workfare programs, the welfare-to-work model of choice of many conservatives, the return on investment is even more impressive. In Washington state, a comparison of the two programs serving women on welfare found that workfare programs only increased employment by 13%, compared to 33% for transitional jobs program. In addition, earnings for those who participated in workfare only increased 5%, compared to 76% for transitional jobs participants.⁴⁹

V. KEY QUESTIONS

By creating a package of enhanced economic security benefits that builds on the structure of existing programs, it is not necessary to create new administrative systems that can add significant costs and pose major barriers to implementation. Existing programs, like unemployment insurance and Trade Adjustment Assistance, also provide critical services that have been undermined by years of neglect and major cuts in administrative funding. Thus, by improving these existing programs, the constituency for support of a new economic security initiative expands as well, which promotes the health and sustainability of both the old and new programs.

In addition to the key issue of administrative feasibility, the fate of new initiatives like the programs proposed here will depend on several other considerations. Of course, the cost and the source of funding are the first questions of critical significance. Whenever possible, we have been transparent about the costs of the proposed initiatives described above, while also proposing new dedicated sources of funding not limited to general revenue and describing the significant return on investment from the enhanced benefits to workers and the health of the nation's economy.

We wrapup this effort by anticipating the following additional questions that may influence discussion of the proposal.

- **With a major expansion of benefits to promote economic security, will the new program lead to longer periods of unemployment and unnecessary reliance on benefits?**

These days, when an expansion of social insurance programs is seriously considered, the first line of critique – backed by a long line of conservative economists – is that the new benefits create an increased incentive for workers to change their behavior based on the risks that are insured, thus encouraging people to take excessive risks, like remaining unemployed rather than seeking new work.

Professor Jacob Hacker chronicles the evolution of this “moral hazard” argument in his new book *The Great Risk Shift*, and finds that “in the new critique of insurance, moral hazard wasn’t just a technical issue that insurers had to address. It was a glaring flaw with insurance itself – and especially with government insurance protections.”⁵⁰ When this economic analysis was adopted by conservatives in Congress and well-funded think tanks, it took on an even stronger moral tone. Thus, in the view of a fellow at the conservative American Enterprise Institute, “if you cushion the consequences of bad behavior, then you encourage that bad behavior.”⁵¹

This “moral hazard” argument was prominently featured when Republicans in Congress defeated the proposal to extend jobless benefits in 2003 at the same time that long-term joblessness peaked at over two million workers.⁵² For example, rather than hear from the communities hardest hit by the recession, the House Republicans organized a “return to work” hearing, profiling the “moral hazard” economic research.⁵³ And when the measure was defeated on the floor of the Senate just before Thanksgiving, the lead spokesman, Republican Senator John Ensign of Nevada, argued: “The more generous the benefit, the easier you make it to stay on unemployment insurance, and the less incentive there is for people to actually go out and do what it takes to find a job.”⁵⁴

The reality is that the effect of unemployment benefits on the time spent unemployed is often overstated, while critics also ignore how jobless benefits contribute to improving the quality of jobs. Certainly, when you ask most unemployed workers what they think, they say the length of their unemployment is about the limited supply of quality jobs, not their limited unemployment benefits (now averaging just \$268 a week). For example, a national poll of unemployed workers commissioned by NELP during the last recession found that the vast majority were especially concerned that they would have to take a job requiring a major cut in pay and accept employment that did not provide health insurance.⁵⁵

In contrast to Senator Ensign's view, the poll also found that in the previous month, unemployed workers applied for an average of 29 jobs.

One state has been regularly collecting data that provides a unique picture of the quality of job openings, which backs up the stated concerns of the unemployed. Minnesota's "job gap" survey documents both the significant competition for jobs (comparing the disproportionate number of job seekers to the number of job openings) and the quality of the state's job openings. For example, this year's survey showed that the average wage for job openings is just \$8.65 an hour.⁵⁶ In addition, more than seven of the top 10 occupations with job openings do not require more than a high school diploma. The two occupational groups with the most job openings are food service and sales, which pay an average of just \$6.71 an hour.

Despite all the attention generated by the "moral hazard" argument, the economic research shows that, in the aggregate, those who collect unemployment benefits stay unemployed *at most* two and half weeks more than those who do not.⁵⁷ According to a major study of the issue, changes in policy that produce more generous benefits do not explain the increased length of time workers have stayed unemployed. Instead, it is a function of other factors, like more manufacturing layoffs and the changing composition of the labor market.⁵⁸ As described earlier, the research also shows that those workers collecting unemployment benefits end up receiving more in pay and better benefits, including health care. Thus, the benefits also promote efficiency in the way workers are matched with quality jobs.

By looking at the actual experience of individual states that have expanded benefits, there is even more we can learn about the behavior of unemployed workers than just what is reflected in the economic studies. Take the case of California, which recently increased its *maximum* unemployment benefits from just \$230 a week to \$450 a week over a five-year period (2001-2005). This necessary

increase in jobless benefits – the most significant one-time boost of any state in recent decades – should have produced a major increase in the average duration of unemployment benefits according to the "moral hazard" argument. In fact, during this period of especially slow job growth, the average increase in the duration of unemployment benefits in California was 27% *less* compared to the U.S. average.

While the average weekly unemployment benefit in California increased by 76% (\$161 to \$284) from 2001-2006, the average length of time on benefits increased by just 11.8% during this period when the economy was still struggling to produce jobs (to 17.3 weeks). In contrast, benefits increased nationally by 23.7% as more people with higher paying jobs were laid off during the recession (from an average of \$224 a week to \$277), while the length of time on unemployment benefits increased by 16.2% (to 15.4 weeks). During this period, California also became the first state to provide paid family and medical leave benefits.

Thus, even if the expanded benefits proposed here relate to an incremental increase in the duration of unemployment, these necessary measures will also promote stronger attachment to the workforce and a better match between worker skills and quality jobs. In other words, it's time to put the "moral hazard" argument in its proper perspective. Or, as one of the nation's leading authorities on social insurance put it in his book, *True Security: Rethinking American Social Insurance*, "designing programs with a proper respect for their effects on behavior matters, but we cannot allow the inability to avoid all such effects to paralyze efforts at providing income security through social insurance."⁵⁹

■ **Is there a strategy to promote more rapid reemployment to address the trend toward long-term joblessness?**

The push to promote "rapid reemployment" as a response to the "moral hazard" argument has been

gaining ground, usually to the exclusion of proposals that would fill the major gaps in the unemployment program. It is also part and parcel of the “work first” agenda of the Bush Administration and key Republicans in Congress, embodied in proposals to create “reemployment bonuses,” “wage insurance” and “personal reemployment accounts.” The key problem with this narrow focus on rapid employment is that it fails to distinguish between reemployment in good quality versus poor quality jobs.

While recognizing that quality jobs are far harder to come by – especially for those who have been laid off from manufacturing and other higher-wage industries – our initiative seeks to create a reemployment system driven by the creation of quality jobs. Most important, the state training funds described earlier have successfully targeted growth industries to make the state economy more globally competitive. They are often based on sector initiatives that build partnerships between employers, unions, training providers and other key allies. When properly targeted to workers in low-wage industries as well, this approach has produced major gains in earnings.⁶⁰ It is not training just for the sake of training. Instead, the training is driven by quality state and local planning that helps build a growing economy.

A rapid reemployment system committed to promoting quality jobs should also reevaluate how the nation’s limited federal and state dollars are being spent to match unemployed workers with available jobs. For example, in recent years, limited federal job training funds have often subsidized the nation’s growing temp industry, which has produced more high-turnover, poor quality jobs. At the same time, the nation’s federal job matching program (the U.S. Employment Service, which serves the critical function of helping those collecting jobless benefits find jobs) has barely survived repeated funding cuts by Congress in recent years. A new economic security system should also reform the key job-matching responsibilities of the U.S. Employment Service based on model state practices.

Of special significance, our proposal also seeks to help workers *stay* employed by improving the quality of jobs. For example, the sector-based training initiatives, which improve skill levels while modernizing key industries, have helped reduce job turnover by 41%.⁶¹ By providing paid family and medical leave benefits, the studies similarly show that workers are far more likely to keep their jobs by taking a short-term leave, rather than being forced to abandon work to take care of compelling family obligations.

- **Does the proposed new initiative support the idea of “wage insurance” to provide extra income to those who end up taking lesser paying jobs?**

The latest proposals to create a national program of “wage insurance” – generated by economists associated with the Hamilton Project (a new think tank created by President Clinton’s Treasury Secretary, Robert Rubin)⁶² and others – are seriously flawed and create a dangerous precedent to further undermine the best of the existing economic security programs.

Although the specifics vary depending on the proposal,⁶³ wage insurance would substitute or run alongside the unemployment insurance system, tapping similar sources of funding. The payments, capped at \$10,000, would replace about 50% of the earnings of those who take a full-time job with a significant cut in pay. Sometimes called “wage-loss insurance,” the most-often stated goal is to promote rapid reemployment by reducing the length of time that workers remain unemployed. Some proponents also emphasize the need to fill the gap in income for those who have to take a significant pay cut.

The primary flaw of wage insurance is also its primary virtue in the eyes of many proponents – that it would encourage workers to take low-paying jobs they would not otherwise accept. But promoting downward economic mobility, and in the process sacrificing

efficiency and productivity, is not good for workers or for society. Thus, wage insurance also sends the wrong message that workers should be encouraged to take low-paying jobs at Wal-Mart and elsewhere and that the nation should not set its sights higher to help create better jobs that can sustain today's working families.

Moreover, wage insurance may actually undercut the wages and jobs of other workers. There is strong evidence that wage insurance ends up hurting other workers by creating more demand for low-wage jobs. One of the only studies evaluating wage insurance found that it will move more people into jobs that they wouldn't have otherwise taken while also producing employment losses for other workers.⁶⁴ According to the Upjohn Institute study, which simulated the impact of a two-year wage insurance program covering dislocated workers at half their prior salary, "virtually all of the employment gains experienced by dislocated workers as a result of the wage subsidy come at the expense of other workers."⁶⁵

Not surprisingly, wage insurance is also heralded by conservative groups because the idea of moving people quickly into mostly low-paying jobs is consistent with their agenda to dismantle existing economic security programs. For example, the Heritage Foundation is on record supporting wage insurance to replace the hard-fought TAA benefits of workers who are laid-off because of trade, stating: "Unlike the current program, which works as a disincentive for rapid reemployment, the proposed wage insurance program would strongly encourage workers to quickly find new jobs since they would not receive the assistance until this takes place."⁶⁶

With the fate of the TAA program dependant on reauthorization by Congress in 2007 and lobbying by hostile groups like the Heritage Foundation, the proponents of wage insurance are effectively undermining support for the significant training and income support provided by the TAA program. Similarly,

the Bush Administration has proposed legislation that would "waive" requirements in federal laws that now preclude states from substituting wage insurance for unemployment benefits.⁶⁷

Finally, there is a dearth of empirical evidence on wage insurance programs. Currently, the only wage insurance program on the books in the United States is a five-year demonstration program that began in 2003, which targets workers age 50 and older who have lost their jobs because of trade. The program, called Alternative Trade Adjustment Assistance (ATAA), is not available to those who participate in training. While there is still no available data evaluating the ATAA program, anecdotal information indicates that the take-up rate has been very limited, which is not a strong endorsement of the program by trade-impacted workers.

In fact, only Canada has actually operated a wage insurance program. They did so on a pilot program basis, but then decided not to adopt wage insurance because of the limited program results. Contrary to the goal of the program, to help workers move into jobs more quickly, the Canadian program (replacing up to 75% of earning losses) "produced a small and short-lived impact on the speed with which displaced workers returned to work, but resulted in increased cost to the government."⁶⁸ And when the program was extended to those workers who were more often unemployed, "it was difficult to recruit participants to take part in the demonstration, and focus groups conducted with potential participants indicated that such an offer was seen as having little relevance to their employment situations."⁶⁹

Given the limited experience with wage insurance and the especially unimpressive results, we seriously question the wisdom of the recent proposals to elevate wage insurance to a major new national priority. Indeed, wage insurance could do far more harm than good, especially given the politics of the forthcoming debate over trade and other economic security programs.

VI. CONCLUSION

These are tough times for many more working families, full of concern that they will not share in the promise of the American dream, or worse, that they will end up destitute despite a lifetime of hard work. However, as described by Senator Obama, there's also hope for the future, tapping the nation's long tradition and commitment to the "idea that everybody has a stake in the country, that we're all in it together and everybody's got a shot at opportunity . . ."

With this paper, we have explored several innovative state solutions that will help move the nation closer to the promise of economic opportunity by preventing the hardship caused by devastating events like long-term layoffs, loss of health care, family-care emergencies and home foreclosures. If adopted as national priorities, these state reforms will also go a long way to promote better quality jobs and a more stable workforce.

We have coupled these innovations with a new platform of federal protections that address the consequences of major national events, including global trade, recessions and disasters, and with financing proposals backed up by a discussion of the significant return on the nation's new investment of resources. In the end, it is our hope that these proposals will contribute to the emerging debate that is taking a more serious look at the nation's economic security programs in light of the demands of today's hard-working families.

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68 Shawn de Raaf, et al. *Final Report of the Earnings Supplement Project* (Social Research and Demonstration Program, March 2004), at vii.

69 *Id.*

