A Plan to Reform the Unemployment Insurance System in the United States.

The Unemployment Insurance (UI) system is the primary countercyclical income support policy for people of working age in the U.S., but the system has not experienced significant reform since 1976. In the current and previous recession, the system has required significant congressional intervention in order to provide adequate support. Arindrajit Dube, Professor of Economics at the University of Massachusetts Amherst, offers a comprehensive policy proposal in collaboration with The Hamilton Project to reform and modernize the UI system, to reflect and align with the challenges of the current labor market.

The proposal would accomplish the following goals:

- Convert UI into a fully federal program.
- Ensure that more people who need UI are eligible.
- Create automatic triggers for state and national unemployment rates that extend the potential benefit duration (PBD) when needed due to economic downturns.
- Implement more progressive replacement rates and boost them during recessions.
- Improve short time compensation (STC), also known as "work sharing".

Current Policy Overview

- **Duration of UI Benefits**: UI benefit duration is typically 26 weeks, but 7 states provide benefits for a shorter period. The extended benefit (EB) program, which is partially covered by the federal government, automatically starts during recessions using a 2-tiered trigger tied to the total unemployment rate (TUR) and the insured unemployment rate (IUR) —extending the PBD by up to 20 weeks if both tiers are triggered.
- **Administration of UI Benefits**: UI is currently administered by the states, which have great autonomy over the amount of aid provided. Maximum weekly benefits are as low as $240 in Arizona and as high as $855 in Massachusetts. Replacement rates (the amount of previous earnings replaced by UI) ranged from 35 percent to 50 percent of prior weekly earnings in 2019.
- **Eligibility for UI Benefits**: Eligibility is determined by minimum earnings thresholds for workers who are involuntarily separated and work in a covered job.
- **Authorization of UI Benefits**: The federal government typically authorizes and pays for emergency UI programs during economic downturns. Examples of policies that extended the PBD and/or the benefit amount, include: Emergency Unemployment Compensation, Pandemic Emergency Unemployment Compensation, and Federal Pandemic Unemployment Compensation, are policies that extended the PBD and/or the benefit amount.

The Challenge

The reliance on state administration of the UI system has proven ineffective at administering benefits in a timely manner and in sufficient amounts during downturns. Variability from state to state makes it difficult to determine if systems are aligned with the program objectives and the needs of unemployed people. Specifically, this has resulted in the following pervasive and structural challenges to the system:

- The UI system has built in automatic triggers in the EB program, but they do not work as well as they should and generally expire too quickly.

- When EB is triggered, the maximum PBD is 46 weeks, which is not long enough for deeper downturns as we have seen in both the current and previous recessions.
- The average replacement rate across most states is less than 50 percent which is not adequate income support for most of the unemployed.
- Many workers fall through the cracks of the UI system and are not eligible for coverage.
- STC programs are only utilized by 27 states. Participation rates are low and do not respond well to economic circumstances due to a lack of awareness and administrative hurdles for the employers.

Policy Proposal Overview

In order to address those challenges, Dube proposes 5 key reforms to the UI system that will ensure more working Americans receive the benefits they need.

1. Convert the UI system to a fully federally financed and administered system in order to make it more equitable and easier to manage.
2. Expand eligibility by changing the minimum earnings requirement, allowing some voluntary separation, and implementing a "Jobseekers' Allowance."
    a. The earnings minimum would be $1,000 in one quarter, and $500 in a second quarter for a standard and alternative base period, significantly increasing the likelihood that an unemployed worker qualifies.
    b. "Good cause" voluntary separation would include workers who are experiencing hours or wage cuts through no fault of their own, extenuating family circumstances like illness, childcare, or relocation of a partner.
    c. A "Jobseekers' Allowance" assists those who are unemployed and actively searching for work but do not qualify for regular UI.
    d. Employees would be automatically notified about eligibility.
3. Tie PBD to state and national TUR triggers with 7 tiers that automatically extend UI for up to 98 weeks. In future downturns the system would automatically adjust based on the severity of the recession.
4. Increase the replacement rates and add a two-tiered weekly boost during downturns of up to $200 per week using TUR triggers.
5. Improve STC by streamlining the application process. This can be achieved by incorporating it into UI at a federal level, increasing employer awareness with information campaign strategies, allowing up to 80 percent of enrolled workers to have hours reduced to increase employer participation, and providing a refundable credit to increase employers' incentives to use STC.

About the Author

Arindrajit Dube is a Professor of Economics at the University of Massachusetts, Amherst, known internationally for his empirical research on the minimum wage and its effect on employment. In addition, he has also conducted extensive research on the impact of unemployment insurance programs, nature of competition in the labor market, impact of fiscal stimulus, as well as the role of collective bargaining.