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CURRENT ATTACKS ON THE UNEMPLOYMENT COMPENSATION SYSTEM

From accounts of unemployment compensation (UC) in newspapers and on "Sixty Minutes," we might think that the unemployed worker is living on easy street while jobs go begging:

> "High unemployment insurance payments are a major cause of the high unemployment rate."
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> "You are just as well off collecting UC as working. People on UC have no incentive to get a job."

Or so we hear. What's the truth behind these statements?

1. UC Causes Higher Unemployment?

The UC system was specifically designed to discourage experienced unemployed workers from temporarily taking jobs that do not utilize their skills while they wait to return to their old jobs (or equivalent jobs). As UC recipients wait for recall or search for another job, the unemployed not eligible for UC have improved access to the available low-skilled vacancies, which might otherwise be filled by the experienced unemployed if they were not receiving UC payments. In this way, the UC system is also beneficial for the unemployed who are not eligible to receive UC--primarily new or recent entrants to the labor market. During the typical situation when the number of job seekers outnumbers the available job slots, UC may affect the composition of unemployment rather than the rate of unemployment. The number of vacancies probably remains the same, but who fills each vacancy is affected by the existence of the UC system. Without UC, we would expect to find even more young people and disadvantaged people in the unemployment pool.

2. Living High on the Hog?

If you are collecting UC, how well off are you? The Legislature recently increased the maximum weekly benefit paid in California from $104 to $120 beginning January 1, 1980; to $130 beginning May 1, 1981; and to $136 beginning January 1, 1982. These increases improve the UC benefits for workers earning more than $3,348 quarterly (or $247 weekly). Even with these improvements, the financial position of most UC recipients is severly strained.

The percent of wages paid as the UC benefit is called the "replacement rate." For example, if your weekly earnings average $200 and your UC benefit is $110, your replacement rate is 55%. Under the new California law, the replacement rate will range from 57% (for those receiving just above the $30 minimum benefit) to 37% (for those receiving just below the maximum benefit). Above the maximum benefit, the replacement rate falls rapidly, since higher wages are not accompanied by higher benefits. When the new law becomes effective in 1980, the benefit ceiling will become applicable at approximately the State's average weekly earnings rate.

So what do these rates mean for the financial well-being of the typical unemployed worker? Budget studies show that a family with one worker needs UC equal to 55% to 70% of gross earnings in order to cover "nondeferrable expenditures" (that is, food, shelter, fuel and utilities, telephone, transportation, health care, insurance). These "required rates" are far above the 37% to 57% rate actually paid. (If the family has more than one worker, the replacement rate needed to meet non-deferrable expenditures when one worker is unemployed is lower.)

3. Room for Improvement

These figures indicate that under the revised UC system, families without savings or credit will continue to suffer a real financial squeeze when a member is unemployed. The replacement rates need to be substantially increased and the benefit ceiling needs to be raised if the California UC system is to pass the minimal test of covering the worker's nondeferrable expenditures. If a more stringent test of paying benefits that maintain the worker's life style were applied, even higher benefits would be required.

The once-favorable public attitude toward Unemployment Compensation has been eroding as the task of reducing the unemployment rate without increasing inflation becomes more difficult. The current distorted image of the UC system seems to reflect our inability as a country to solve our economic problems rather than the malfunctioning of the UC system itself. We must not ignore the personal costs of unemployment and, consequently, fail to provide adequate support for the unemployed, while we increase our efforts to reduce their numbers.

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