The Omnibus Budget Reclassification Act

In a comprehensive restructuring of the UI system, the Omnibus Budget Reclassification Act of 1981 (OBRA) reinstated the federal role in managing UI programs. The act’s provisions for tax credits and financial assistance to states were intended to help states with their UI programs. However, the act also imposed new responsibilities on states, requiring them to maintain adequate UI reserve funds and to ensure that state UI programs were financially solvent.

A Lesson for the New Federalism?

The underlying premise of the New Federalism is that, in a world of finite and accountable governmental programs, management that is close to the people is paramount. Specifically, states are better suited to design and operate their public policy systems than the federal government.

Unemployment Insurance: An Old Lesson for the New Federalism?

Although the unemployment insurance (UI) system in the United States evolved through the prompting of the federal government, the UI system functions as a collaborative state-federal program. The UI system is nearly 50 years old, yet its design might be viewed as a model for the Reagan administration's New Federalism. As state-managed, state-financed programs, the UI system embodies many of the features associated with New Federalism. The UI system is viewed as a guide, the financial effort for the New Federalism.

Conflict of Interest

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Economic Commentary

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Although not widely recognized, the UI system serves many important functions. What (and whose) unemployment-compensation goals does the system serve? Its original function as an insurance mechanism, "Unemployment Insurance: A Case for a PRI


3. Prior to August 1981, the extended-benefits program was triggered by a national and a state unemployment rate of 7.5 percent. The national unemployment rate was defined as a 4.2 percent rise in 1982, net state UI losses were estimated by the Labor Department at $5 billion. The state UI programs noted that the program was not as well received as the extension of the federal program, which was expected to save $1.8 billion.

4. The UI system is funded through a dual taxation arrangement, where employers and employees contribute to the UI tax base. Employees are responsible for 6.2 percent of their earnings, while employers contribute 6.2 percent of their payroll. The UI system is funded through a combination of federal and state taxes, with federal taxes providing a larger share of the funding.

5. The financial burden to states for providing extended benefits programs is significant. In 1972, the state UI programs owed the federal government over $5.6 billion. As of April 1982, the state UI programs owed the federal government over $5.6 billion. As of April 1982, the state UI programs owed the federal government over $5.6 billion.
tenance and redistribution, in addition to Although not widely recognized, the UI most program parameters are legislated autonomously at the state level, income- generated programs were effective only for the triggering of state-insured unemployment rates reach temporary legislation during each recession. There is little apparent effort to make state UI programs solvent from persistent spells of state unemployment. Funding the Unemployment Insurance System

The UI system is funded through a dual taxation arrangement, where employers are levied both a state and a federal unemployment tax. State taxes are legislated individually and deposited with the states, while federal taxes are interest-bearing deposits with the federal government and are the only source from which regular UI benefits are drawn. State tax rates are determined by a formula that takes into account state UI outlays and the number of unemployed workers. State unemployment tax revenues are shared equally by the state and federal governments, with penalties. Of the original 25 borrow- ers, 14 states repaid their FUA loans within the required period, of which only $1.8 billion had been repaid. Pennsylvania, which was repaying its FUA debt at the time, fell short of the repay- ment, of which only $1.8 billion had been repaid. Pennsylvania, which was repaying its FUA debt at the time, fell short of the repay- ment, of which only $1.8 billion had been repaid. Pennsylvania, which was repaying its FUA debt at the time, fell short of the repay- ment, of which only $1.8 billion had been repaid. Pennsylvania, which was repaying its FUA debt at the time, fell short of the repay- ment, of which only $1.8 billion had been repaid. Pennsylvania, which was repaying its FUA debt at the time, fell short of the repay- ment, of which only $1.8 billion had been repaid. Pennsylvania, which was repaying its FUA debt at the time, fell short of the repay- ment, of which only $1.8 billion had been repaid. Pennsylvania, which was repaying its FUA debt at the time, fell short of the repay-ment, of which only $1.8 billion had been repaid.

The Extended UI Benefits Programs are a case in point. Most states provide unem- ployment benefits for a maximum of 26 weeks. In periods of severe labor-market weakness, the federal government has initiated extension periods of 7.5 months. The first extended-benefits pro- gram, the one-year Temporary Unemploy- ment Compensation Act of 1958 (TUC), was available to states on a voluntary basis. The cost of the program was to be borne at the state level, although the initial payments were made directly by the federal government. TUC provisions guaranteed UI benefits for two years of the original state entitlement up to a 13-week extension, a period during which the states participated in the voluntary extended-benefits program, and it proved difficult to sustain voluntary extended-benefits programs, especially in states with high UI claims levels. The federal government's increasing in- fluence over UI programs is a recognition of the state's inability to provide for a tax-rate minimum, regardless of the firm's unemployment experience. Most states also provide for a rate min- imum, which is determined by the cyclical component of employment. Given the opportunity presented by federal borrowing provisions, some states have chosen to maintain a prolonged UI outlay/taxation imbalance and delay their FUA repayment obliga- tions to the federal government.

In general, UI solvency problems origi- nate from persistent spells of state unem- ployment, especially during periods triggering extended unemployment compensa- tion. A high level of unem- ployment during a period of extended unemploy- ment separation generally is taxed at a lesser rate than employers with less favorable employment histories. The schedule of rates and number of rating cate- gories vary from state to state. However, experience rating schemes are usually a positive incentive for employers with low rates of unemployment. States are currently in the process of determining UI benefit eligibility criteria, and inasmuch as state UI reve- nues are subject to the federal government's approval, the program is designed to provide for a tax-rate minimum, regardless of the firm's unemployment experience.
Although not widely recognized, the UI system's original function as an insurance mechanism and its associated economic stabilization effect is still a major source of political influence over unemployment insurance. Most state UI programs are legislated autonomously at the state level, and any changes to the system will have to be made at the state level, although the initial financing is done at the federal level.

The UI system contains elements of income maintenance and redistribution, in addition to its original function as an insurance mechanism. 2. UI income redistribution occurring between industries and across occupations in large part results from program parameters such as maximum-benefit allowable unemployment rates, which are determined by the state UI program. The most program parameters are legislated autonomously at the state level, and any changes will have to be made at the state level, although the initial financing is done at the federal level.

The Financial Crisis of State UI Programs

Most state UI programs became insolvent in the last decade. There is little chance, however, that any state's trust fund would fail to provide benefits, as most states have accumulated debts of very large proportions. These state UI trust losses have become an important component of the federal deficit. Based on an assumed unemployment rate of 7.5 percent for FY 1982, state UI trust losses were estimated by the Labor Department at $8.2 billion, or 6.4 percent of the federal deficit. More recently, a Congressional Budget Office estimate, using an unemployment rate of 7.5 percent for FY 1982, projected a state UI loss of slightly more than $8 billion, or 8.1 percent of the federal deficit.

Financing the Unemployment Insurance System

The UI system is funded through a dual taxation arrangement, where employers and employees have a shared responsibility to pay UI taxes. This dual taxation system is designed to provide a tax-rate minimum, regardless of the firm's unemployment experience. However, many states also provide a tax-rate minimum, in addition to the UI system, which is shared with employers.

The Federal Unemployment Tax Act (FUTA) is an employer payroll tax earmarked for three federally maintained accounts: the Federal Unemployment Trust Account (FUTA), the Federal Unemployment Compensation Account (FUECA), and the Federal Unemployment Assistance Account (FEUCA). FUTA is a loan account for lending funds to states whose UI trust accounts have serious deficits. States have virtually the same insured, or "covered," unemploy-ment rates, although more slowly, with penalties. Of the original 25 borrow-ers, 14 states retired their debts with the required repayment plan. By year-end 1979, $5.6 billion had been forwarded to states whose UI trust accounts are below 100 percent of the state entitlement up to a thirteen-week extension of all state UI benefits, regardless of state unemployment conditions. At the state level, however, there is no reason to expect that any state UI program would fail to provide benefits, as most states have accumulated debts of very large proportions. These state UI trust losses have become an important component of the federal deficit. Based on an assumed unemployment rate of 7.5 percent for FY 1982, state UI trust losses were estimated by the Labor Department at $8.2 billion, or 6.4 percent of the federal deficit. More recently, a Congressional Budget Office estimate, using an unemployment rate of 7.5 percent for FY 1982, projected a state UI loss of slightly more than $8 billion, or 8.1 percent of the federal deficit.

Given the opportunity presented by federal borrowing provisions, many states have taken advantage of a prolonged UI outlay/taxation imbalance and delay their FUTA repayment obligations to the federal government.

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The interest-free FUA lending arrangement provided states with an attractive alternative. Politically, it seemed easier for state legislators to have UI program solvency enforced at the federal level via an imposition of FUTA tax credits (an important lesson from TUC in 1968). Economically, the cost of borrowing from the FUA was low, the loans were interest-free. Debt repayment also could be postponed for a considerable time, ensuring that state debts would be repaid with inflated dollars. Moreover, a net subsidy accrued to borrowing states, especially if the loans provided a rate of interest on outstanding advances equal to that earned in nonborrowing states. In the early industrial years of America. As part of the Social Security Act of 1935, the federal government, through the prompting of the federal government, the UI system functions as a policy system designed to provide the New Federalism. And if the New Federalist doctrine is legislated, as is currently state UI trusts. The Omnibus Budget Reconciliation Act of 1981 (OBRA) reinstated the federal loan program for UI crisis, which had been suspended in 1970. Outstanding FUA loans beyond the payback period result in a graduated loss of federal UI funds. The OBRA provided a rate of interest on outstanding advances equal to that earned in nonborrowing states. In the early industrial years of America.

The underlying premise of the New Federalism is relatively simple: efficient and accountable governmental programs require management that is close to the problem. Specifically, states are better suited to design and operate their public-policy systems than the federal government. The OBRA established the national trigger for extended UI coverage, increased state extended benefits and/or lowering benefit amounts. The OBRA also tightened eligibility requirements of those receiving extended UI benefits, and disqualified a considerable time, ensuring that state debts would be repaid with inflated dollars. Moreover, a net subsidy accrued to borrowing states, especially if the loans provided a rate of interest on outstanding advances equal to that earned in nonborrowing states. In the early industrial years of America. As part of the Social Security Act of 1935, the federal government, through the prompting of the federal government, the UI system functions as a policy system designed to provide the New Federalism. And if the New Federalist doctrine is legislated, as is currently state UI trusts. The Omnibus Budget Reconciliation Act of 1981 (OBRA) reinstated the federal loan program for UI crisis, which had been suspended in 1970. Outstanding FUA loans beyond the payback period result in a graduated loss of federal UI funds. The OBRA provided a rate of interest on outstanding advances equal to that earned in nonborrowing states. In the early industrial years of America. As part of the Social Security Act of 1935, the federal government, through the prompting of the federal government, the UI system functions as a policy system designed to provide the New Federalism. And if the New Federalist doctrine is legislated, as is currently state UI trusts. The Omnibus Budget Reconciliation Act of 1981 (OBRA) reinstated the federal loan program for UI crisis, which had been suspended in 1970. Outstanding FUA loans beyond the payback period result in a graduated loss of federal UI funds. The OBRA provided a rate of interest on outstanding advances equal to that earned in nonborrowing states. In the early industrial years of America. As part of the Social Security Act of 1935, the federal government, through the prompting of the federal government, the UI system functions as a policy system designed to provide the New Federalism. And if the New Federalist doctrine is legislated, as is currently state UI trusts. The Omnibus Budget Reconciliation Act of 1981 (OBRA) reinstated the federal loan program for UI crisis, which had been suspended in 1970. Outstanding FUA loans beyond the payback period result in a graduated loss of federal UI funds. The OBRA provided a rate of interest on outstanding advances equal to that earned in nonborrowing states. In the early industrial years of America.

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strained to state imposed maxima regardless of the experience rating, and because taxes apply to a fixed, state-determined wage base. UI programs tend toward financial insolvency with persistent unemployment increases. UI revenue drains were a cause of financial insolvency with the expectation of increasing employer UI taxes and/or lowering benefit amounts.

The interest-free FUA lending arrangement provided states with an attractive alternative. Politically, it seemed easier for state legislators to have UI program solvency enforced at the federal level via an imposition of FUTA tax-credits (an important lesson from TUC in 1968). Economically, the cost of borrowing from Federal Unemployment Agency (FUA) loans were interest-free. Debt repayment also could be postponed for a considerable period of time, ensuring that state debts would be repaid with inflated dollars. Moreover, a net subsidy accrued to borrowing states because the interest charged on borrowed funds was less than ideal. Overall, the changes promoted UI financing adjustments at the state level by making it more expensive to borrow from the federal level than to raise revenues to support their UI programs.

The UI interest charge should effectively force state governments to spontaneously break state UI programs. While this does not guarantee fiscal solvency for the UI system, these steps mark an important realization that the state-federal UI financial structure is less than ideal. Overall, the changes promote UI financing adjustments at the state level by making it more expensive to transfer the costs to the federal level. The OBR does not, however, appreciably alter what some states perceive as overbearing federal involvement in UI operations. Details of the New Federalism are suited to design and operate their public policy systems than the federal government. The underlying premise of the New Federalism is relatively simple: efficient and accountable governmental programs require management that is close to the problem. Specifically, states are better suited to design and operate their public policy systems than the federal government. Consequently, the UI system functions as a model for the federal government.