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Unemployment Compensation in the United States

Provisions and Institutional Changes since the 1980s*

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Abstract

Systems of unemployment compensation in many OECD countries have undergone major institutional changes during the past three decades. These changes were a response to severe fiscal pressures and the fear of potential adverse effects on labor market behaviour that might arise from generous public income support. This is less true for the United States where the basic structure of the safety net for unemployed workers has only experienced modest modifications since the 1980s. The paper gives an overview of the most important legal reforms and the current provisions at the state and federal level available to unemployed workers and their families, including unemployment insurance and means-tested public assistance programs (Food Stamps, housing assistance, etc.). It concludes that the decentralized unemployment insurance system in the United States contains a major gap between the statutory coverage of workers and the proportion of unemployed actually claiming and receiving benefits.

Contents

1 Introduction

Unemployment insurance schemes are an important element of national social security systems. They have come under growing political pressure in most OECD countries during the past decades due to rising costs and the potential adverse effects of public income support on labor market behavior. This is less true for the United States, however. Here, contributions to the unemployment insurance funds, mainly paid by employers, were always held to a minimum. There are no provisions for retraining or other active labor market policies financed by these funds, and there is no unemployment assistance comparable with the "Arbeitslosengeld II" in Germany. Only a fraction of all eligible workers collect unemployment insurance benefits, and payments are known to be limited and less generous than in other Western welfare states.

Maybe even more than other social provisions in the United States, unemployment compensation reflects strongly conflicting ideas about the proper role of government in a free market economy as well as the fragmented structure of the American political system. For a long time, income support for the unemployed has not been viewed as an entitlement but rather as public relief or welfare running counter to the idea of individual responsibility and self-reliance. From the beginning, when unemployment insurance was initiated on a national basis as part of the New Deal, states have enjoyed wide discretion in setting contribution rates, duration and levels of benefits and qualifying requirements. Furthermore, throughout much of the programs' history employer influence at the state level has been substantial. As a result, a distinct system of unemployment compensation has developed over time, with a complex state-federal structure and intergovernmental cooperation which is in many respects unique, both in comparison to other countries and to other provisions of the American welfare state. While until today, most of the state unemployment insurance programs offer only limited protection to laid-off workers, Congress has strengthened the social safety net by providing additional, federally funded benefits during periods of extraordinary regional or national levels of unemployment.

This working paper gives an overview to the current unemployment compensation system in the United States, including the most important public assistance programs available to unemployed workers and their families, and provides information on the major administrative and legal changes since the 1980s with an impact on benefit accessibility and generosity.

2 Key Features and Structure of the Unemployment Insurance System

The unemployment compensation system of the United States is based on federal framework legislation which leaves ample leeway to widely discrepant state regulations (West and Hildebrandt 1997; O' Leary and Straits 2004). The federal legislation dates back to the 1930s (Social Security Act of 1935 and Federal Unemployment Tax Act of 1939), when Congress used its taxing powers to create an incentive for states to pass and maintain their own unemployment benefit programs. By 1937, all 48 states had enacted federally approved unemployment compensation schemes, which are almost totally financed by employer taxes.[1] These programs still form the core of the American safety net for workers who are involuntarily unemployed (Blaustein 1993: 155ff.) Under the supervision of the federal Department of Labor, the regular benefit programs are administered with considerable state discretion and only minimal federal standards and guidelines in terms of eligibility or the amount of benefits.

Though still limited, the role of the national government gradually expanded since the 1970s (Lake 2003). As most state governments had proved unable to respond adequately to surges in unemployment during economic downturns, Congress added two further tiers to the insurance system: a permanent standby program of extended benefits, and temporary supplemental benefits, both designed to cater for prolonged spells of unemployment during recessions (US House of Representatives 2008: 4-14ff.; Whittaker 2009). The permanent extended benefit program, first enacted in 1970 and revised substantially in 1981, provides additional weeks of benefits to jobless individuals who have exhausted their entitlement to regular benefits and live in a state with particularly high unemployment. Moreover, Congress authorized three temporary supplemental benefit programs between the early 1980s and 2007 in an ad-hoc manner, either in the midst of or towards the end of a national economic downswing. These schemes are often referred to as emergency

1 To induce states to pass unemployment insurance laws, the Social Security Act of 1935 imposed a uniform national tax on payrolls of industrial and commercial employers. Employers who paid taxes to a state with an approved unemployment insurance program could credit up to 90 percent of the state tax against the federal tax. This ensured that employers in states without an unemployment insurance law would not have an advantage competing with similar businesses in states with such a law because they would still be subject to the federal payroll tax, while their employees would not be eligible for benefits. The current gross federal tax rate is 6.2 percent on wages up to $7,000 per employee. The state tax rates range from zero to 12.27 percent (US Department of Labor 2009a). The actual tax rate varies for each employer, depending in part on the amount of unemployment benefits to former employees. Most of these revenues flow into state unemployment trusts (maintained by the federal government), and are used to pay the actual benefits that workers receive under the regular state programs.

benefit programs and are usually fully federally funded. They involve a variety of triggering mechanisms and qualifying requirements, and provide income support to the long-term unemployed in all states, in addition to whatever extension might be available under the permanent extended benefit program. 16 states governments have also established additional benefit programs of their own allowing for prolonged payments, either to exhaustees of other programs, unemployed individuals in (re)training, or to so-called dislocated or displaced workers (US Department of Labor 2009b).[2]

The following sections describe selected key dimensions of regular unemployment insurance schemes such as the coverage ratio referring to the percentage of the labor force covered by the programs, the beneficiary ratio showing the percentage of the unemployed who claim benefits, and the duration and generosity of benefits captured by the wage replacement ratio. As job loss may also lead to the loss or gain of entitlements to certain cash and non-cash benefits such as health care, public assistance or food stamps, these programs will also be dealt with briefly.

2 Dislocated or displaced workers are workers who lost their jobs due to foreign trade and shifts in production out of the United States. Both states and the federal government provide additional allowances and services to this particular category of the unemployed. Furthermore, there are special federal programs for railroad workers, federal civilian employees, former members of the armed forces, and victims of disasters (US House of Representatives 2008a: 4-10f.; US Department of Labor 2009c).

Table 1: The Three-Tier System of Unemployment Compensation

Name of Benefit Program	Regular State Unemployment Compensation	Federal-State Extended Benefit Program (permanent program with special trigger mechanisms)	Federal Supplemental Benefit Programs (ad-hoc programs with special trigger mechanisms)
Benefit Base	earnings related	earnings related	earnings related
Benefit Unit	unemployed	long-term unemployed (with expired benefits from regular state programs)	long-term unemployed (with expired benefits from state and permanent extended benefit programs)
Duration of Benefits	in almost all states maximum of 26 weeks	13 up to 20 weeks (in addition to the regular 26 weeks)	13 up to 53 weeks (in addition to the regular 26 weeks or the 13-20 weeks of extended programs)
Eligibility Criteria	defined by state laws	defined by state and federal legislation	defined by state and federal legislation
Financing	contributions by employers (payroll taxes)[3]	federal and state taxes	federal taxes

Sources: Lake 2003; US House of Representatives 2008a (Green Book)

3 Three states also levy payroll taxes on employees to finance unemployment benefits. In comparison to other OECD countries, however, the expenditures for the unemployment insurance system in the United States are quite low. In 2002, Germany spent 1,89 percent of GDP for "passive labor market policies", the United States only 0,30 percent (Werner and Winkler 2004: 9)

3 Scope of Coverage

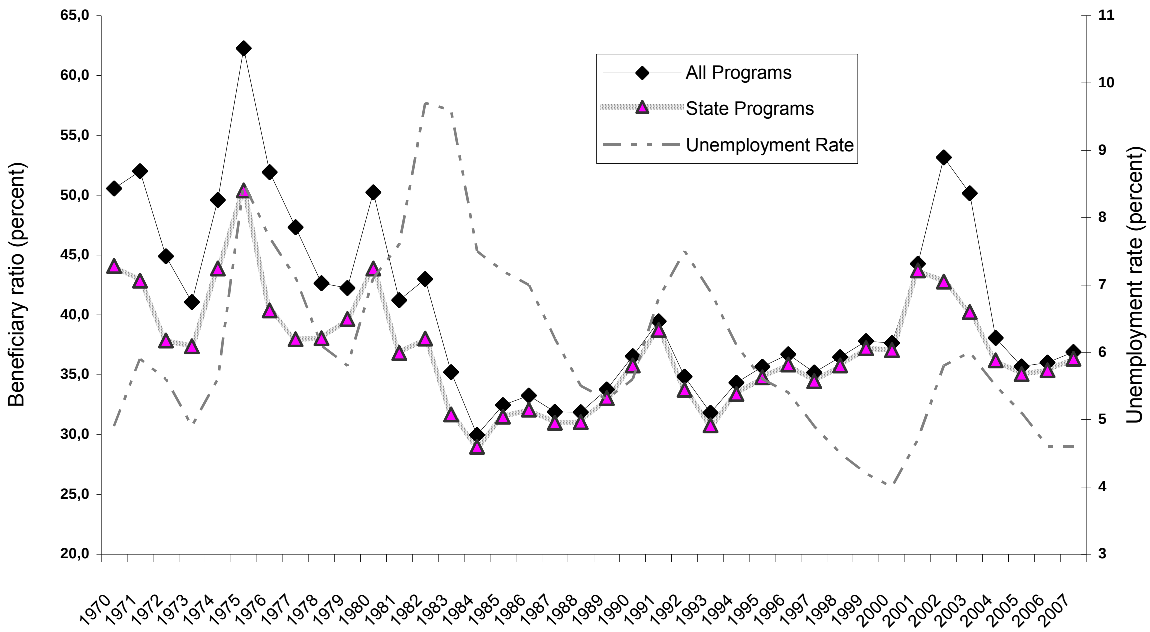
The American unemployment insurance system combines a fairly wide scope of insurance coverage with remarkably low beneficiary ratios. Official coverage data report the percentage of the labor force for which employers have to pay federal unemployment taxes (Bassi and McMurrer 1997: 54). The original Federal Unemployment Tax Act (FUTA) covered only non-agricultural, non-public-sector workers in firms with more than eight employees during at least 20 weeks of the year. Significant extensions of coverage were legislated in 1976, when state and local government employees, those employed by non-profit organizations and by smaller firms, and certain agricultural and household workers were incorporated into the scheme for the first time (Annual Statistical Supplements 2008: 62). Since then coverage has become nearly universal. Many states have even extended coverage beyond the margins prescribed by federal legislation. However, four major exceptions remain: first, all seasonal and agricultural workers who are employed on small farms; second, workers who are classified as self-employed; third, household workers with very low wages; and fourth, employees of religious organizations which enjoy a general tax exemption in the United States (US Department of Labor 2009c).

Although the scope of the scheme is almost universal with coverage now extending to over 90 percent of all employees, the proportion of unemployed workers who collect benefits has decreased considerably over the post-war era, especially in the 1970s and 1980s. In some states, today less than one-third of unemployed workers receive UI benefits, while in others more than half do. The variation across states follows a long-standing pattern: In the Northeast (New England and Middle Atlantic) and Pacific regions beneficiary rates tend to be higher, while they are lowest in the South and in many Mountain states (Chase 2007: 9). Several official measures are used to capture benefit take-up rates (Wandner and Stengle 1997). The most common indicator for policy and research purposes is the ratio of the "insured unemployed" to the "total number of unemployed workers", often referred to as the "standard rate". This standard rate includes only those unemployed who claim compensation under the regular state programs based on weekly data collected from the state unemployment insurance agencies (Wittenburg et al. 1999: 7). Another measure, the "all-programs beneficiary rate", reports claimants from all three tiers of the unemployment insurance system (regular, extended and federal supplemental benefit programs).[4] Both rates declined sharply from a peak in the mid-1970s to a low

[4] For the United States, there are no national data sets on eligibility, the proportion of the unemployed who meet all qualifying conditions of unemployment benefit programs, since the initial eligibility requirements for the receipt of unemployment benefits vary considerably from state to state (see further below), and many states do not retain information on ineligible claims (Wittenburg et al. 1999).

point of less than 30 percent in 1985. The "standard rate" remained between 30 and 40 percent of all unemployed throughout the 1980s and 1990s, increased considerably during the last recession 2001/2002, but exhibited another downward trend in the following years until 2007.

Figure 1: Percentage of Unemployed Claiming Benefits (Standard and All Programs Rate) 1970 – 2007



Sources: US Department of Labor (Bureau of Labor Statistics); Program rates from author's calculations based on data from the "Economic Report of the President", Executive Office of the President of the United States, eds. (various years)

4 Amount and Duration of Benefits

There are no federal standards regarding the amount of public benefits to which unemployed workers are entitled. Under state laws, the benefit amount varies within certain minimum and maximum limits according to past earnings. The period during which an unemployed worker can collect benefits, however, is determined by state and federal law. State laws establish benefit duration under regular unemployment insurance programs, whereas federal laws determine the additional weeks available for extended benefits during recessions.

Since 1935, the generally accepted policy goal of the unemployment insurance system in the United States has been to provide benefits for a limited time only to unemployed workers and their families during temporary spells of unemployment (Blaustein 1993: 43f). Originally, 15 weeks was the most common, maximum duration. Since the 1980s, the norm is a maximum duration of 26 weeks of regular benefits for unemployed individuals with substantial work experience. Today, only two states offer a maximum, benefit duration of 30 weeks. While eight states provide the same number of benefit weeks to all claimants, the number of weeks available in the remaining 42 states is determined by the amount of past earnings and the distribution of earnings over the so called "base period". The "base period" is usually defined as the first 4 of the last 5 completed, calendar quarters preceding the claim for unemployment insurance benefits (US House of Representatives 2008a: 4-12). The number of states providing "uniform duration" has fallen over the years. Estimates show that about 35 percent of all beneficiaries qualify for less than the full 26 weeks, and that between 31 and 43 percent of all benefit claimants exhaust their eligibility before finding a new job (Coven 2003: 3; Burtless 2009: 8).

State programs also differ as to the time an unemployed person must wait before receiving benefits. Until the 1970s, uncompensated waiting periods of two or more weeks were quite common. Currently, all but 13 states require a one-week period of unemployment before claimants can draw benefits. Only a few pay benefits retroactively for the uncompensated week after a specified period of unemployment (US Department of Labor 2009d).

The average duration of benefit eligibility in the United States is rather short compared to Germany. It decreased somewhat in the 1990s and was 15 weeks in 2007 (US House of Representatives 2008a: 4-12). Under specific circumstances, however, second and third tier programs in the United States offer additional protection to the long-term unemployed. In principle, the permanent, federal-state "Extended Benefits Program" is activated automatically by conditions of relatively high unemployment in a state.[5] It provides up to 20 additional weeks of financial aid to individuals who have exhausted entitlements to regular unemployment compensation. The number of unemployed served by this program, however, has declined since the 1980s. The last four, temporary "Federal Supplemental Benefits Programs", enacted between the early 1980s and 2007, provided 13 to 33 weeks of additional benefits during national recessions, depending on a state's classification as high or low unemployment (US Department of Labor 2009b).

A person exhausting all available benefits may be eligible for means-tested public assistance programs such as "Temporary Assistance for Needy Families" (TANF), or "General Assistance" (discussed below). Table 2 is an illustration of the US unemployment protection system during national recessions. It is rare, however, that all three programs (regular, extended, and supplemental benefits) become activated in one state due to the complexity of trigger mechanisms.[6]

Table 2: Cash Benefit System for the Long-Term Unemployed During Recessions (1980-2007)

Worker loses job		If still unemployed		If still unemployed		If still unemployed	
►	**Regular State Unemployment Compensation**	►	**Federal-State Extended Benefits**	►	**Federal Temporary Supplemental Benefits**	►	**Other state-funded programs**
	one waiting week; provides up to 26 weeks (in two states 30 weeks) of benefits		provide up to 13 additional weeks of benefits, 20 in exceptionally high unemployment states		provide up to 13 additional weeks of benefits, 33 in exceptionally high unemployment states	and meeting certain eligibility criteria	**Public Assistance** (AFDC/TANF or General Assistance)

5 Before 1992, permanent extended benefits were based on the "insured employment rate", the proportion of unemployed workers claiming benefits. New legislation changed the so called state triggers. Today, states can chose between two options: extended benefits are either activated when in an individual state the seasonally adjusted total unemployment rate for the most recent 3 months is at least 6,5 percent, or when that rate is at least 110 percent of the state average total unemployment rate in the corresponding 3-month period in either of the two preceding years (Annual Statistical Supplements 2008: 64).

6 During the past 25 years, the permanent extended benefit program has rarely become activated, even when regional unemployment was quite high, due to failures of state governments to adopt their respective legislation to new federal guidelines, and/or because of fiscal reasons (cf. Vroman 2009; Burtless 2009).

Another important indicator of generosity within state unemployment insurance systems is the amount of lost earnings replaced by the programs. In the United States, maximum and minimum benefit amounts are set by state governments. In 2007, the national average weekly payment was $288 (US House of Representatives 2008a: 4-12) – more than 15 percent less than the weekly equivalent of the federal poverty threshold for a family of three.[7] Moreover, recipients must pay taxes on unemployment benefits. Starting in 1979, benefits were partially taxed by the national government as ordinary income (annual incomes exceeding $20,000 for singles, and $25,000 for married couples). In 1982, the income thresholds decreased to $12,000 and $18,000, respectively. In 1986, federal legislation made all unemployment benefits subject to federal income tax (The Lewin Group 1999: 5).

Several methods determine the weekly benefit amount, which, in principle, is wage-related.[8] While most states have benefit formulas intended to replace approximately one-half of lost wages, many high-wage workers actually receive much less than half of their former earnings, and some low-wage workers collect more, due to maximum and minimum payment rules (O'Leary and Rubin 1997). Generally, benefits are lower in the United States than in most OECD countries (Burtless 2009: 42). Much depends on where a claimant lives, however, given the wide differences in benefit generosity between states: In 2007, the maximum weekly benefit was $900 in Massachusetts, but only $177 in Mississippi (US House of Representatives 2008a: 4-13). Thirteen states also pay additional allowances for eligible dependents, including a non-working spouse and children under the age of 18. Again, the amount paid per dependent/per week varies considerably by state – from a maximum of $5 to $100 (US Department of Labor 2009d). Some states also provide payment of reduced benefits for partial unemployment. The benefit paid for a week of partial unemployment is usually the weekly unemployment benefit minus wages earned for the week (Ibid.).

Since wage replacement rates are not reported regularly by all unemployment insurance agencies, the often-cited, national "aggregate wage replacement rate" is based on the calculation of the average weekly benefit received by unemployment insurance claimants as a percentage of the average weekly wage of all covered workers (O'Leary and Rubin 1997: 170ff.).[9] From the beginning, this national re-

7 The poverty threshold in 2007 for a family of three, with one child under the age of 18, was $17,170 (http://aspe.hhs.gov/POVERTY/07 poverty.shtml).

8 Most states use the past earnings in the quarter of the "base period" with the highest earnings for computing weekly benefits. Other states use a percentage of annual wages, and a few use an average weekly wage as a basis for computing the benefit rate.

9 Some authors claim that this measure, applied by the US Department of Labor, might understate the true replacement rates of unemployment benefits in the United States, since it considers the wages of all covered workers, and not the ones of the actual claimants. Vroman (1990), for example, has argued that the unemployed have usually earned lower wages than the average worker. The actual replacement rate can be computed only by using micro-level data because it requires knowledge of the earnings of benefit recipients.

placement rate has been rather stable. In fact, from the mid-1980s to the mid-1990s, when benefits averaged nearly 35 percent of weekly wages for covered workers, there was virtually no change. A modest decline in replacement rates, however, occurred in the late 1990s (see Table 3).

5 Eligibility Requirements

There are also no federal standards for determining unemployment compensation eligibility in the United States. With myriad variations in qualifying and disqualifying rules resulting from state flexibility in creating unemployment insurance policies, analyzing institutional changes regarding the conditional nature of benefits is rather difficult. The systemic inconsistency between states results in inequitable treatment of unemployed workers, despite their often similar employment histories. During the 1980s and early 1990s, at a time of disproportionately high unemployment and enormous fiscal pressure on most state budgets, administrative and legislative "retrenchment" rendered the benefit programs less accessible (discussed further below).

State eligibility decisions are based on two types of requirements: non-monetary and monetary. Non-monetary requirements are supposed to ensure that benefit claimants are involuntarily unemployed and remain attached to the labor force; whereas monetary requirements determine if a worker had substantial attachment to the labor market prior to applying for benefits (US House of Representatives 2008a: 4-6ff.).

Non-monetary Requirements

Basic, non-monetary requirements in most states are quite similar to corresponding regulations in Germany – in some states, even less stringent. To receive financial aid, an unemployed worker must register at a local employment office and file a benefits claim. Additionally, all states require that recipients are able to – and available for – work.[10] In 42 states, claimants must actively seek work, with considerable variation in the enforcement of job search requirements (The Lewin Group 2003: ES-7). Some states require availability for "any work", while a small number of

[10] Eleven states have added a provision that no claimant should be deemed ineligible due to illness or temporary disability (US House of Representatives 2008a: 4-12).

states adopted "suitable work" definitions in their legislation. Federal law, however, prohibits states from denying unemployment insurance benefits if the claimant refuses to accept a new job under substandard labor conditions – e.g., a job paying less than the national minimum wage (US Department of Labor 2009e). As in Germany, most state laws bar workers who have voluntarily left their jobs without "good cause". Definitions of "good cause", however, differ substantially between states. Some states modified their "good cause" definitions, starting in the 1990s, to consider circumstances connected either with individual work situations or personal living-conditions.[11]

Monetary Requirements

In contrast to Germany, where receipt of regular unemployment benefits (Arbeitslosengeld I) requires at least 12 months of employment, most state laws in the United States tie unemployment benefits to job tenure (length of employment) and a certain amount of earnings. To qualify, a worker must earn a minimum dollar amount for a prescribed time period (in most cases six months) during the year. In all but a few states, only wages and hours accrued in the first four of five completed quarters before filing a claim ("base period") are counted towards eligibility.[12] The monetary requirements are set by each state. In 2007, qualifying wages for minimum weekly, state benefits ranged from $130 to $4,136 in the "base period", those for maximum weekly, state benefits from $8,400 to $21,480 (US House of Representatives 2008: 4-7). Many states also have quarterly earning requirements. As a general trend, low earning requirements correspond with rather meager benefit payments – even for high-wage workers. Although wage requirements for unemployment insurance eligibility appear quite modest, they are still based on a "standard model" of employment. In combination with the "base period" rule (the exclusion of earnings in the most recent completed calendar quarter), it becomes much harder for certain groups to qualify for unemployment compensation – including seasonal workers, employees in part-time positions (of which the majority are women), and workers with particularly low-wages and/or short job tenures as found among many migrants and former welfare recipients employed in service industries (cf. Kletzer and Rosen 2006; Simms 2008; Vroman 2009). A comparison of monetary

11 Several states, for example, consider "family issues" such as domestic violence, spousal relocation, or care for family members as good causes for job separation; others have special provisions for "victims of sexual harassment", or consider transportation difficulties, deprivation of equal employment opportunities or hazardous working conditions. Not much is known, however, about the implementation of these special state provisions (The Lewin Group 2003: 48f.).

12 To give an example: For a worker who filed an unemployment claim in April 2007, the so called „base period" would have been January 1 through December 31, 2006.

requirements reveals that workers employed half-year for 20 hours per week at the federal minimum wage were excluded from collecting UI benefits in 16 states in 1990, and in 8 states in 2000 (Wenger 2001: 8).

But even workers whose earnings qualify them for unemployment insurance often face barriers in applying for – and receiving – unemployment benefits. According to administrative data, the number of benefit reviews and claim denials has risen sharply since 2000 (Chase 2007: 18). In 2007, the major reasons listed for disqualification were "voluntary separation from jobs without good cause", and "discharge for misconduct" (US House of Representatives 2008a: 4-9).[13] Part-time work is another contentious issue. By current rules in at least 20 states, workers available for part-time jobs, only, are excluded from the unemployment insurance system, in principle – even if they initially qualified for unemployment benefits as part-time or full-time workers. In other states, those seeking part-time work are required to have a history of part-time work, or show that they have a legitimate reason, such as caring for a child or attending school, to limit job searches to part-time positions (US Government Accountability Office 2007).

Another unexpected research finding is that the total number of unemployment claims filed in the United States has decreased over the years – despite a steady increase in unemployment spells (cf. Wandner and Stettner 2000; Vroman 2008). The underlying causes seem manifold. Some explain the low take-up rates with the overall reduction in union employment and the migration of manufacturing from high-benefit to low-benefit states (e.g. Blank and Card 1991). Lower levels of unionization raise the likelihood of workers being unaware of benefit rights, and less generous benefits make applying for them less remunerative. Other studies indicate that many workers find the system too daunting. According to several surveys (cf. Vroman 2008), the most common reason for not filing a claim is that workers believed themselves ineligible for unemployment benefits. A small percentage of nonapplicants explained their abstention as either "not needing the money", "too much hassle" or "too much like welfare" (Ibid.: i). Age also appears strongly correlated with non-filing, since younger unemployed workers (aged 16 to 25) are less likely to apply for benefits than their older counterparts (Wandner and Stettner 2000: 16f.). Optimistic job expectations are cited as another important factor for low take-up rates in the United States (Ibid.).

[13] According to a recent NGO report (National Employment Law Project 2009), laid-off workers seeking unemployment benefits in the current recession are almost twice as likely as their counterparts during the 1980s to be accused of misconduct by their former employers. The reason why employers in the United States should have an interest in the disqualification of laid-off workers has to do with the unemployment insurance „experience rating": A company's tax liability for the regular unemployment insurance program is, among other things, based on how many ex-employees have collected benefits.

Table 3: Key Dimensions of Unemployment Compensation in the United States 1981-2007

Year	1980	1990	2000	2007
Scope of Coverage*	88.0%	98.0%	99.7%	96.4%
Beneficiary Ratio (all programs)**	50.2%	36.5%	37.6%	36.9%
Wage Replacement Ratio (aggregate replacement rate)***	36.9%	36.2%	32.9%	35.1%
Duration of Benefits in Weeks/Maximum	20 (one state) 26 (44 states) 30 (two states) 34 (two states) 36 (one state)	20 (one state) 26 (47 states) 30 (two states)	26 (all states)	26 (48 states) 30 (two states)
Average Duration of Benefits in Weeks	14.9	15.4	13.7	15.2

Sources: US Department of Labor 2009g (Unemployment Insurance Financial Handbook); US House of Representatives 1994, 2004, 2008a (Green Book)

* Coverage is defined as the percentage of the labor force for which employers have to pay federal unemployment taxes.

** The ratio of the unemployed to the "total number of unemployed workers" who claim compensation under all unemployment insurance programs.

*** Based on the US Department of Labor's calculation of the average weekly benefit received by unem ployment insurance claimants as a percentage of the average weekly wage of all covered workers.

6 Other Social Provisions Available to Unemployed Workers

In the United States, the potential risks connected with job loss are more far-reaching than in Germany. Not only is the unemployment insurance system less generous in terms of amounts and duration of benefits, but it fails to protect workers against the loss of health insurance or other fringe benefits formerly provided by their employers. Long-term unemployed are also no longer entitled to the "Earned Income Tax Credit", which subsidizes earnings of low-income workers through federal and state income tax codes, and is known as the largest, anti-poverty program for non-senior adults in the United States (see working paper on family policies).

The loss of health care is one of the most costly and serious consequences of unemployment in the United States – particularly for older workers and those with dependents. Since enactment of the Consolidated Omnibus Budget Reconciliation Act in 1985, laid-off workers are allowed to continue their former employer's health plan for up to 18 months, but must pay for it on their own. The "Congressional Budget Office" (2004: 21) reports that more than 40 percent of all surveyed, unemployed workers and their families were without health insurance in the years 2001/2002 because they could not afford it. Coverage for unemployed workers and their dependents by Medicaid or other government health programs depends on household income and the state of residence, because no binding, federal eligibility rules exist for these programs (see working paper on health insurance).

The US social system always lacked the type of unemployment assistance programs, found in Germany and other countries, which provide an ultimate safety net for those whose unstable work history disqualifies them from collecting unemployment compensation, and for the long-term unemployed who have exhausted their regular benefits. Until 1996, however, poor families with minor-aged children were entitled to income support under the joint federal-state program "Aid to Families with Dependent Children" (AFDC). The main target was the single-mother family. The federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996, also known as "welfare reform", eliminated this entitlement and replaced AFDC with another means-tested program: "Temporary Assistance for Needy Families" (TANF). TANF has much stricter eligibility and work requirements, and stipulates five years as the maximum duration of benefit receipt (see working paper on family policies for a more detailed description). While some unemployed workers with children might be eligible for TANF benefits in some states and choose to apply, the overall sharp decline in program participation since the mid-1990s indicates that traditional public assistance programs using cash transfers have lost in importance.[14] Public assistance (either cash or in-kind) to needy individuals without minor children – called "General Assistance", or "General Relief", in some states – has always been comparatively marginal in terms of benefit amounts, the number of recipients, and the number of states and counties actually offering this kind of income support.[15] As of 2007, only two states paid cash welfare benefits to childless adults deemed "able-bodied". Many states and counties have seriously curtailed – even eliminated – "General Assistance" programs since the 1990s (Ifcher 2007).

The federal "Supplemental Nutrition Assistance Program" (SNAP), established in current form in 1974 and commonly known as the "Food Stamps Program", is the only public assistance program in the United States with uniform, federal standards on which needy families and individuals in the United States can rely. The program issues either monthly coupons, redeemable at retail food stores, or provides assistance through electronic benefit transfers. In 2008, the average monthly value of food stamps was $95 per person and $227 per household (US Department of Agriculture 2010a). SNAP eligibility requirements are based on income and asset ownership. In most cases, the gross monthly household income must be less than 130 percent of federal poverty guidelines. A family may have liquid resources (cash, checking accounts, stocks, bonds, etc.) of up to $2,000 (with one or more family members who are disabled or age 60 or over, the resource limit is $3,000). Since enactment of "welfare reform", able-bodied applicants must also register for work and cooperate in seeking and keeping employment. Generally, unemployed individuals between 18 and 50 who do not have any dependent children can get SNAP benefits only for 3 months in a 36-month period if they do not participate in a workfare, training or employment program. While prior to "welfare reform", most legal immigrants were eligible for food stamps on the same basis as citizens, today most adult non-citizens must have lived in the United States for at least five years in order to qualify for benefits. Despite these restrictions, food stamps usage has grown over the years: Program participation rose from 20 million individuals in 1980 to more than 30 million in 2008 (Ibid.).

Housing assistance, in the form of rental vouchers or public housing, may be also available to unemployed individuals and their families. The modern system for providing government support to families to cope with rising housing and energy costs consists of three major programs: rental housing assistance (33 percent of all US households rented in 2007), federal assistance to state and local governments (mainly block grants) and homeownership assistance (US House of Representatives 2008b: 15-1). While federal expenditures for housing assistance have risen tremendously between 1980 and 2007 – from $5,6 to almost $40 billion (US Office of Man-

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14 The number of individuals receiving public assistance benefits from the TANF program has declined from 11,5 to 3,8 million between 1996 and 2007 (US Department of Health and Human Services 2009).

15 Since "General Assistance" is a state and often a local program, there are no federal provisions and rules.

agement and Budget 2010: 65ff.) – most of this increase is due to the introduction of housing-related tax credits and programs that are supposed to strengthen and broaden homeownership. The budget for federal housing assistance to poor families (public housing, Section 8 vouchers, and other project-based rental assistance programs), in contrast, has declined nearly 50 percent from its peak in 1978 to 2004 (Dolbeare et al. 2004). In 2007, about 4 million households (out of 7,6 million families living below the official poverty line) were served by the later programs, with long waiting lists, since housing assistance in the United States – with the exception of housing-related tax deductions and credits – is not an entitlement (US House of Representatives 2008b: 15-13).

In general, public assistance programs and services to protect individuals and families from the negative financial impacts of a job loss are not very generous and limited in scope. The most vulnerable group are the long-term unemployed who, in contrast to other OECD countries, have never been a special target group of social policies in the United States.

7 Major Statutory Changes since the 1980s

Compared to the 1996 US "welfare reform", or the 2004 "Hartz reform" in Germany, legislative changes affecting the unemployment insurance system in the United States have been rather incremental since the 1980s. The most sweeping curtailments in federal and state unemployment compensation programs resulted from legislation passed under the Reagan administration, during a time of deteriorating economic circumstances and severe federal and state budget gaps.

The 1980s[16]

A major erosion of unemployment insurance protection occurred during the seven-year period 1980-1987, when unemployment rates reached record high levels. In 1980, the Omnibus Budget Reconciliation Act introduced a federal job search requirement for claimants of extended benefits and, for the first time, established

[16] If not otherwise stated, the following information is based on the author's evaluation of the Chronology of Federal Unemployment Compensation Laws (US Department of Labor 2009h), and of the regular annual reports on changes in unemployment insurance legislation (state and federal) published in the Monthly Labor Review.

rules denying such benefits to claimants refusing "suitable work". The 1981 Omnibus Budget Reconciliation Act (OBRA) subsequently toughened the criteria for activating extended benefit payments, rendering this federal-state program protecting the long-term unemployed more or less ineffective (cf. Vroman 1990 23 ff.).

There were also large changes regarding federal loans to states. Until 1982, states that had depleted their unemployment insurance trust funds could easily borrow money from the federal treasury to meet obligations, at little or no cost (Ibid.). The passage of OBRA, in 1981, required them to pay interest on outstanding loans and regain solvency of their trusts. As a significant incentive by the federal government to cut spending, it led to legislative and administrative changes in almost all state unemployment insurance systems between 1981 and 1987. At least 44 states tightened the monetary and/or non-monetary regulations of their unemployment compensation systems, in this period, in order to lower the number of claimants and program costs (US General Accounting Office 1993: 15). The federal taxation of benefits, beginning in 1979, may also have contributed to an overall reduction in benefit payments and receipt since the early 1980s. The 1986 Tax Reform Act made all unemployment benefits – regardless of household income levels – subject to federal income tax, thus making their receipt less attractive (Anderson and Meyer 1997).

The 1990s

Under the Bush, Sr. (1989-1993) and Clinton (1994-2001) administrations, unemployment insurance experienced only minor changes. In 1993, Congress passed the Unemployment Compensation Amendments, establishing the "Worker Profiling and Re-employment Services" system (Eberts and O'Leary 1996). For the first time, federal law made participation in a profiling/screening program compulsory, both for state employment agencies and claimants of regular unemployment benefits. Those most likely to exhaust their regular benefits were also required to engage in re-employment services.[17]

State policies adopted in the 1990s regarding their respective, unemployment insurance systems varied widely: Some states toughened reporting requirements for work searches; others increased penalties for fraudulent claims, or raised earnings eligibility requirements. Many state legislatives, however, adopted policies making it easier and more attractive to apply for – and collect – benefits. 39 states, for example, raised their real, maximum benefits, which increased by 15 percent from

[17] In general, however, re-employment services or so called active labour market policies play a marginal role in the United States compared to many European countries (Daguerre 2007: 17). Most available programs for employment assistance such as job training and education are targeted to minorities, youth, and dislocated workers (O'Leary and Straits 2004: 29).

1990 to 2000 (Wenger 2001: 10). The 1990s also saw changes in some state unemployment insurance laws that lowered barriers for contingent and part-time workers by altering the calculation of earnings and/or by lowering the monetary requirements of their unemployment insurance programs.

2001 – 2007

During the George W. Bush administration, the federal government held back from far-reaching, retrenchment legislation. In 2004, Congress authorized access to the National Directory of New Hires at the Department of Health and Human Services to help state agencies combat unemployment insurance fraud and prevent overpayments. As a result, it became much easier to detect individuals who continued to collect unemployment benefits after returning to work. In 2007, the US Department of Labor issued a final ruling declaring only those who are "able and available" to work and have not "withdrawn" altogether from the labor market would be entitled to unemployment compensation.

Some states further increased their maximum weekly benefits amounts; others modified their rules regarding "good causes" for voluntary job separation. Most rule modifications related to "family issues", such as domestic violence and the need to care for family members, with some defining sexual harassment in the workplace, or deprivation of equal employment opportunities, as acceptable reasons for voluntarily leaving a job.

Collectively, the legislative and institutional changes demonstrate three general trends since the 1980s: First, they suggest that state benefits – the first and core tier of the unemployment insurance system in the United States – have not become less generous in terms of the duration and amount of benefits (wage replacement ratio). The deterioration of benefits was mostly due to the introduction of federal taxation. Second, to the extent that the federal and state governments have cut back on the generosity of unemployment compensation, they have done so primarily by limiting access to the programs either by tightening monetary and non-monetary requirements for regular benefits, or toughening criteria for activating extended benefit payments. Third, the growing gap, since the 1980s, between the statutory coverage of workers and the proportion of unemployed actually claiming and receiving benefits can be partially attributed to inaction by both levels of government in adapting the insurance system to a changing workforce (shifting occupational compositions with increases in the share of contingent, temporary and very low-wage workers), as well as changes in the length of unemployment (increase in the average duration of unemployment spells).

8 Summary and Hypotheses

Despite various modifications over more than seven decades, the basic structure of the US safety net for unemployed workers has remained largely unchanged. Benefit generosity and receipt reached a high point in the 1970s, when Congress added two further tiers to the insurance system to address prolonged spells of unemployment during recessions. Both state and federal unemployment insurance policies became more restrictive in the 1980s, due mainly to record high levels of unemployment, severe fiscal pressures, and austerity measures enacted by the Reagan administration. Since then and despite state efforts in recent years to liberalize qualification requirements for their respective programs, the reach of unemployment protection in the United States, measured by the beneficiary ratio, has been in steady decline.

The retrenchment that has occurred in the US unemployment insurance system since the 1990s could be characterized – according to Jacob Hacker – as a "policy drift". "Drift" occurs when policies fail to adapt to changing patterns of social risk either because of the "stickiness" of welfare institutions, or as a result of "deliberate efforts by political actors to prevent the recalibration of social programs" (Hacker 2005: 46). Obviously, the decentralized unemployment insurance system in the United States has not kept pace with broad shifts in the labour force and employment patterns since the 1970s. For many decades, major gaps in the unemployment insurance system have been evident. Such gaps, inadequately filled by means-tested, public assistance programs like food stamps, or Temporary Assistance for Needy Families, will most likely affect low-income workers, women in part-time positions, and workers who have suffered permanent job loss.

Hypotheses for the micro analyses

Group-specific

1. Due to the exclusion of part-time workers and those with very low wages from a number of state unemployment compensation programs, women, migrant workers and low-educated workers should experience the highest losses of income after becoming unemployed.

2. Single mothers who lost their job fared less well in the late 1990s and 2000s because of the 1996 "welfare reform" that abolished their entitlement to public assistance.

2. While older workers might have larger savings and better means to buffer longer spells of unemployment, they are particularly at risk when becoming unemployed because of the loss of health insurance.

Over time

1. The influence of the welfare state on post government household incomes has deteriorated over time, especially between the 1980s and 1990s, due to the tightening of eligibility requirements of unemployment compensation schemes at the state and federal level and the taxation of benefits, starting in the 1980s.

2. The variation of the mean income loss due to unemployment, however, has grown over time because of the increased diversification of state unemployment insurance programs and regulations.

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Appendix

Table 4: Major Statutory Changes in Unemployment Insurance and Public Assistance Programs, 1981-2007

Programs	Regular State UI Programs	Extended UI Benefits	Federal Supplemental UI Benefits	Public Assistance Programs
1980s	Omnibus Budget Reconciliation Act (OBRA) 1981 (imposed interest charges of up to 10 percent on federal loans to state unemployment insurance trust funds) Tax Reform Act 1986 (mandated taxation of all unemployment compensation)	Omnibus Budget Reconciliation Act (OBRA) 1980 (introduced a federal job search requirement for claimants of extended benefits; established rules denying such benefits to claimants refusing "suitable work") Omnibus Budget Reconciliation Act (OBRA) 1981 (eliminated the national trigger, thus terminating the nationwide extended benefits program; toughened remaining state trigger thresholds; denied extended benefits to claimants with fewer than 20 weeks of work or an equivalent earnings pattern in their respective base period) Tax Reform Act 1986 (mandated taxation of all unemployment compensation)	Omnibus Budget Reconciliation Act (OBRA) 1981 (increased state trigger thresholds also had a negative impact on federal supplemental benefits, given that eligibility was conditionned upon meeting stiffened state extended benefits trigger requirements) Tax Equity and Fiscal Responsibility Act 1982 (created the temporary Federal Supplemental Compensation Program, effective 1982-1985) Tax Reform Act 1986 (mandated taxation of all unemployment compensation)	Family Support Act 1988 (introduced working requirements for mothers with young children to the AFDC-program)

Table 4 continued

Programs	Regular State UI Programs	Extended UI Benefits	Federal Supplemental UI Benefits	Public Assistance Programs
1990s	Unemployment Compensation Amendments 1993 (made state participation in the profiling screening program mandatory; required claimants, identified by the profiling program, to participate in reemployment services or risk being disqualified from collecting benefits) Balanced Budget Act 1997 (gave states complete authority over setting base periods)		Emergency Unemployment Compensation Act 1991 (authorized the temporary Emergency Unemployment Compensation Program, effective 1991-1994) Unemployment Compensation Amendments 1993 (repealed the right of claimants eligible for both EUC and regular state benefits to choose the more favourable)	Personal Responsibility and Work Opportunity Reconciliation Act 1996 (introduced time limits to benefit receipt and stricter working requirements; ended the entitlement to cash assistance; restricted access to food stamps) Quality Housing and Work Responsibility Act 1998 (introduced the Section 8 Housing Voucher Program)
2000s			Temporary Extended Unemployment Compensation Act 2002 (created the Temporary Extended Compensation Program, effective 2002-2003)	Farm Security and Rural Investment Act of 2002 (restored entitlement to food stamps to certain groups of legal immigrants; raised benefit levels for larger households) Deficit Reduction Act 2005 (reauthorized the TANF program and added stricter work requirements)

Sources: Schuldes 2008; US House of Representatives 2008b; US Department of Labor 2009c; Monthly Labor Review (1981-2007)

Table 5: Legislative Changes Implemented by Selected States, 1978-1992

	CA	CO	FL	KY	MA	MI	NH
Eligibility requirements							
Increased qualifying wage requirements	X			X	X	X	X
Increased length of work requirements	X					X	
Disqualification provisions							
Disqualification provisions strengthened		X	X	X		X	X
Benefits levels							
Decreased level of minimum benefits	X	X	X	X	X		X
Decreased level of maximum benefits	X	X					X
Decreased maximum duration of benefits					X		X

Source: US General Accounting Office 1993: 32

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