



Legislative UPDATE

A weekly report from the Washington State Labor Council, AFL-CIO



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At what price, competitiveness?

Negotiations continue between the business community and organized labor on proposed changes to our unemployment insurance system. Until now, in the interest of good-faith bargaining, the Washington State Labor Council has refused to comment about what's on the table in those talks.

But with the State Legislature's imminent return Wednesday to Olympia and the possibility that certain legislators may try to push through unacceptable UI "reforms" in lieu of an agreement, we feel now is the time to offer some details about what business and labor have proposed to date.

State lawmakers may conduct hearings (also as soon as Wednesday) on both sides' proposals to initiate more of a public debate on the issue and spur an agreement. The WSLC would have no problem with that because we have great confidence that any objective analysis of labor's UI proposal will bring support for it from the policymakers, pundits and public -- and many in the business community.

So we've decided to publish this special edition of the *WSLC Legislative Update* focusing entirely on the UI negotiations. However, keep in mind that labor is still at the bargaining table with the business community and remains motivated and hopeful that agreement can be reached.

Some agreement, but stark differences

Although business and labor have agreed to a number of changes to address specific competitiveness and fairness issues, strong disagreement remains on the fundamental issues of the UI taxing system and benefit cuts.

It's a debate between an untested radical redesign of the entire UI tax system backed by part of the business community, which will increase uncertainty and volatility with employer tax rates, and a labor-proposed plan that addresses in a substantive way each one of the business community's competitiveness and equity issues within the current system's framework.

It's a debate between a business proposal to eliminate benefits for some 44,000 Washington workers and their families now living UI-check-to-UI-check, and a labor-proposed plan that avoids those Draconian eligibility restric-

URGENT!

LEGISLATIVE COMMITTEE HEARINGS ON U.I. REFORM HAVE BEEN SCHEDULED FOR WEDNESDAY in Olympia. **Union activists, rank-and-file members, unemployed workers and anyone else concerned about its impacts should be there!** The Senate committee hearing is scheduled for 8-10 a.m. Wednesday, and a House hearing on both UI and workers' compensation reform will be from 9 a.m. to noon. Please make every effort to attend.

tions by targeting new benefit freezes and restrictions to those who can most afford them, at the high end of the scale.

Ultimately, this debate will determine whether the reform momentum generated by the Boeing 7E7 competition will be used to inflict unnecessary harm on people who can't find work in this economy -- and on the community businesses they support. Or whether everyone can get behind a plan that mitigates the harm to struggling families, saves employers and the UI system hundreds of millions of dollars, and retains the structure of a proven, successful system.

THE BUSINESS PROPOSAL

It is impossible to do a side-by-side comparison of the two plans because the business proposal is something of a moving target. That being said, all the drafts presented to date include two major elements that labor cannot accept:

A "RADICAL" NEW TAX STRUCTURE -- In an e-mail inviting legislators to a briefing on the employer coalition's UI proposal, Washington Retail Association lobbyist Jan Gee referred to it as their "radically new tax system." That description is the only aspect of this proposal with which labor agrees.

Business says the new structure will solve the tax-equity issue that has plagued the state for years, where certain em-

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employers subsidize the UI costs of other employers who don't pay their fair share. It would be based on an "absolute benefit ratio," which means an employer's tax is based on their past year's experience plus an annually fluctuating social cost factor added on top to address equity issues.

The employer coalition's tax model is a pay-as-you-go system that would dramatically increase rate volatility for employers and overall system instability, according to a preliminary analysis of the proposal conducted by Wayne Vroman, an economist with The Urban Institute.

What that means is that during a recession or economic downturn, such as the one we have experienced since, oh, about the time President Bush was inaugurated, employers' UI premiums would increase dramatically as they are forced to lay off workers. That will not only lead to further layoffs, it will generate considerable political pressure to cut benefits at the worst possible time.

That has been the experience of states with similar systems. Virginia is one, and during the past 10 years it has ranked between 1st and 5th for the lowest benefits of any state. And as you read this, Virginia's legislature is debating even more benefit cuts.

What's worse, this entire model falls apart and the system becomes insolvent unless our state also imposes Draconian new eligibility restrictions. Which brings us to...

DRACONIAN NEW ELIGIBILITY RESTRICTIONS -- The employer coalition's proposal would impose the strictest eligibility requirements in the nation upon Washington workers. Workers would be ineligible to collect benefits if they earn more than half their yearly wages in one three-month period.

According to Employment Security data, this provision alone would eliminate 43,744 unemployed workers (and their families) from the UI rolls, or 12.7% of all currently eligible claimants.

Although agriculture, fishing and construction workers would be hard hit by the new provision, the cuts would have a dramatic impact on all workers. In almost every job classification, at least 10% of workers would lose their eligibility.

The cuts also disproportionately impact Eastern Washington and rural counties. Although two-thirds of the jobs in this state are in King, Pierce and Snohomish counties, only one-third of the workers cut from the UI system would be in those counties. The hardest hit counties, in terms of percent-

age of workers losing benefits, are Yakima, Walla Walla, Okanogan, Franklin and Cowlitz counties. In all, rural communities would face some \$67 million in benefit cuts, which according to studies of the effect of unemployment benefits on local economies, would translate into about \$144 million in lost economic activity for those communities.

As beloved long-time Senate Majority Leader Sid Snyder was fond of reminding us, those unemployment benefits are spent in small community businesses like his Long Beach grocery store.

Let's not forget that the UI system is not just a safety net for workers who lose their jobs through no fault of their own, it's also a safety net for small businesses in our state's struggling rural communities.

We could go on and on about why these eligibility restrictions are unacceptable, but due to space limitations, let's look at how they can be avoided.

The Numbers DO Lie

A study quoted in news reports found that Washington's UI system costs employers \$599 per employee. That misleading study skews the truth by using an "average" tax rate on a \$28,500 wage base, but the vast majority of businesses in this state pay at a lower rate and many of their employees earn less than that per year.

In 2002, more than one half of all of the state's businesses (67,000 of them) were in Rate Class 1-5, the lowest quarter of classes. In fact about 43% of them were in Rate 1, the lowest of all rate classes. Rate 1 employers paid a maximum tax -- if their employees earned more than \$28,500 -- of \$133.95. The maximum per employee tax in Rates 1-5 was \$262.20.

THE LABOR PROPOSAL

Labor negotiators developed their proposal from the perspective of protecting the most vulnerable families while achieving three goals: Take a bite out of employers' socialized cost issue, address each and every one of business' UI concerns in some fashion, and deal with the greater related "competitiveness" issues, especially for the manufacturing employers like Boeing.

Here is an outline of the labor proposal that we think meets those goals (keep in mind, it's difficult to summarize these without getting wonkish and omitting some detail):

SOCIALIZED COSTS -- Labor's proposal would create a new tax table that addresses so-called "ineffective charges" by lowering the tax rates in the middle rate classes (Class 6-16 of a 20-class system) similar to what was accomplished with last year's bipartisan UI tax reform effort. But it does not increase the taxable wage base for the top classes, the key element of last year's reform criticized by the building industry, which successfully led a referendum campaign for its repeal.

In addition, socialized costs would be addressed by imposing penalties on employers who avoid paying UI taxes by going out of business and starting back up under a new name (there is evidence this is a significant source of ineffective charges). Finally, "voluntary quits" triggered by employer actions would be assigned to the most recent employer. This

will address about one-third of all non-charges, an \$87 million reduction in subsidized costs, and business and labor are already in agreement on this provision.

TAX SAVINGS FOR EMPLOYERS -- Labor's proposal would freeze taxes at Schedule B for the year 2004. If the legislature fails to act, employer taxes will automatically go up to Schedule C next year because high unemployment has sufficiently drained the trust fund to trigger a tax hike. Freezing taxes at Schedule B will save employers \$173 million next year. Just to pick one example out of the air... Boeing, for instance, would save about \$8.5 to \$9 million.

BENEFIT CUTS -- In order to pay for these employer tax savings and to address other longer-term "competitive-ness" issues identified by the business community, the labor proposal also includes benefit cuts. **These cuts are significant concessions, are not accepted lightly and should be considered evidence that organized labor is highly motivated to pass substantive UI reform.**

1. **CUTTING THE MAXIMUM TERM FOR BENEFITS** -- New claims filed after Jan. 1, 2004 would be limited to 26 weeks of regular benefits, down from the current maximum of 30 weeks. This would drop Washington from being one of only two states that allow 30 weeks to being one of the majority of states at 26.

According to Employment Security estimates, this would save the UI system \$160 million over the next four years, or about \$40 million a year. In addition, there will be more employer savings associated with this change because as benefit ratios drop, they will be able to drop rate classes faster and thus pay lower taxes.

2. **EXTENDING THE FREEZE ON THE MAXIMUM BENEFIT** -- The freeze in the \$496 maximum benefit -- not surprisingly, the only provision of last year's UI reform spared by the building industry's repeal referendum -- would be extended under labor's proposal. The freeze would be in place until \$496 equals 66 2/3% of the state's average weekly wage. From that point on maximum weekly benefit will no longer be 70% of the SAWW, but 66 2/3%.

Bottom line savings to the system: nearly \$52 million over the next three years. And again, this would move Washington from the top state in terms of maximum benefits down into the middle of the pack.

3. **REDEFINING GROSS MISCONDUCT** -- Employers have long complained that workers fired for "gross misconduct" can still collect benefits, an especially onerous and costly proposition when it involves a new employee. Labor's proposal agrees to redefine "gross misconduct" for these purposes to include any gross misdemeanor or felony related to the business, and that affected fired employees would forfeit their wage credits with that employer or up to 680 hours, whichever is greater.

There are several other provisions of labor's proposal

that respond directly to employer concerns on benefits, but veer dangerously into Wonkville. And those of you still with us on Page 3 may already be losing patience.

However, it is important to report that labor's proposal also includes two important new benefits: Coverage for part-time workers and dependent allowances of \$10 per dependent up to three. The regular and dependent benefits combined could not exceed the maximum benefit. These changes could literally be the difference between paying a family electric or grocery bill, or going without.

Labor offers substantial, but fair UI reform

Again, the concessions listed above are not accepted lightly. It's fair to say they represent the kind of stark choices being made these days by working families and business owners in this weak economy. They are offered under the condition of maintaining the current tax structure, instead of rushing to pass legislation for a radical new system likely to increase instability and unpredictability.

Labor believes it is essential that this important debate always recognize that business competitiveness proposals being bandied about in Olympia have a human cost. Studies indicate unemployment benefits are the only source of income for fully 37% of recipients, and a "major source" for 60%.

An Employment Security analysis estimates that under the employer-proposed eligibility standards, of the roughly 44,000 claimants ruled ineligible, between 2,700 and 3,600 would be added to already-bulging TANF (Temporary Assistance to Needy Families) caseloads.

Also, every discussion of UI reform includes a healthy dose of anecdotal, inaccurate information about "volunteer quits." Employers' eligible-recipient horror stories have include people who quit because they lose child care, refuse a drug test, decide their commute is too long and get sent to jail. We decided to make a list of all such claims and submit them to Employment Security to verify their accuracy. Their response was no, no, no and no. (Download the "Voluntary Quit Q&A" at www.wslc.org.)

THE BOTTOM LINE IS THIS: Labor is highly motivated to address legitimate competitiveness issues raised by the business community in unemployment insurance and workers' compensation. The competition for the Boeing 7E7 heightens the sense of urgency; we want to do everything we can to win that assembly work for Washington state.

However, it is unconscionable to consider addressing UI issues by lopping tens of thousands of families off of unemployment benefits during a recession. And it would be inexcusable to do so when those cuts can be avoided. Labor's proposal demonstrates that the competitiveness and equity issues can be addressed without attacking people who have lost their jobs through no fault of their own. It's the obvious choice for substantive UI reform, and we believe it merits the support of those calling for reform.