

Outside the Echo Chamber

A fresh look at Washington State's business climate



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This series of special reports by the Washington State Labor Council—posted at www.wslc.org—aims to regain some perspective about Washington state's business climate and examine the successes we can build upon as business, labor and government leaders work together to maintain and increase the number of good-paying jobs in this state, particularly in the aerospace industry.

PART 3

Unemployment insurance saving WA businesses, jobs in this recession

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Imagine a company that does business in every county in Washington state, pumping billions in payroll dollars into our economy. Better still, this company is counter-cyclical, ramping up hiring and payroll when the state economy is struggling.

The rest of the business community and public officials all benefit thanks to increased consumer spending and tax revenues to fund improved public services. So Washington would all go to extraordinary lengths to keep this company healthy and strong, right?

That "company" exists. It's called our unemployment insurance system, and in 2009 it pumped nearly \$4 billion into our state economy. But some political and business leaders seem more intent on undermining the U.I. system than strengthening it. Ignoring its benefits—and the many businesses and jobs it has preserved—they decry its costs and seek to cut its benefits.

Washington has one of the healthiest U.I. systems in the nation. Nearly two years into this recession, it is sufficiently funded that our state approved a major cut in U.I. tax rates effective Jan. 1, 2010, that will save employers hundreds of millions of dollars a year, while also temporarily increasing U.I. benefits.

In contrast, as of this writing 26 states have U.I. systems that are now insolvent. Those states are borrowing billions from the federal government that will have to be repaid by raising employers' taxes amid the recession.

So, which state has a better business climate on this issue? One with responsible tax rates that can pump billions into the state economy and cut employer taxes when both

are most needed? Or one with artificially low taxes that not only pays lower benefits—providing less of an economic safety net for businesses—but also requires a major tax increase amid a recession?

WHAT IS U.I.?

One reason the U.S. economy spiraled into the Great Depression was that millions of Americans lost their jobs, and their ability to pay for the basic goods and services needed to survive. This lack of consumer spending led to more business closures and more layoffs. And so on.

That's why in 1935 the unemployment insurance system was established and it's largely why America has kept economic recessions from spiraling into depressions since then. Jointly financed through federal and state employer payroll taxes, states manage the programs and determine the benefit levels and taxes necessary to fund them. Those taxes are experience-rated, meaning that employers that lay off workers pay higher taxes, just like employers with high work injury rates pay higher workers' compensation premiums.

The U.I. system is designed not only as a safety net for families who've lost their sources of income through no fault of their own, but also as a safety net for businesses. It provides economic stability in times of recession, like the current one.

U.I. also helps businesses maintain a stable, skilled workforce during economic down-



turns, instead of forcing laid-off workers from their homes or to other states in search of employment. Boeing and other companies that historically have laid off workers during downturns and recalled them when conditions improve have especially benefited.

U.I.: THE BEST STIMULUS

Our U.I. system provides temporary partial wage replacement for struggling families, helping them pay rent and keeping food on their tables.

In 2009, amid the most severe recession in a generation, about \$4 billion in benefits were paid out in our state.

The U.S. Department of Labor estimates that for every \$1 of benefits, \$1.64 of purchasing power is created in the economy. Unemployment benefits are the best kind of economic stimulus because recipients immediately spend their money, which then gets circulated in local economies. That's why their economic impact is magnified.

In 2009, our unemployment insurance system created more than \$6.5 billion in purchasing power on Main Street, Washington:

- \$95 million in Benton County
- \$161 million in Whatcom County
- \$155 million in Yakima County
- \$184 million in Thurston County
- \$320 million in Clark County

CONTINUED on reverse

- \$360 million in Spokane County
- \$791 million in Pierce County
- \$844 million in Snohomish County
- Nearly \$2 billion in King County.

This money is saving jobs and businesses. That's what it's designed to do, and that's what it's doing every day.

WHAT DOES IT COST?

Employers in Washington pay an average tax rate of 0.82%, the 13th highest rate in the nation, according to 2009 U.S. Dept. of Labor data. The national average is 0.67%. But that rate is down significantly as Washington's rate dropped from 0.98% in 2008 when we had the seventh highest rate.

By another measure, employers here paid an average \$387 per covered employee in 2009, which ranks us 11th highest. The national average is \$293. But again, that has dropped from \$437 per covered employee in 2008 when we ranked seventh highest.

But most employers here pay far less than these rates. About 55% of Washington employers pay 0.35%, about one-third of the state's average rate. Plus, a new tax cut will take effect on Jan. 1, 2010, that promises to drop Washington in these rankings as other states raise taxes both to cover benefits and replenish empty U.I. trust funds.

2003 U.I. "REFORM"

In 2003, the State Legislature sought to approve a package of tax incentives and other legislation to encourage Boeing to choose Washington as the final assembly site for its 787 Dreamliner. Boeing wanted to address a cross-subsidy issue whereby it was paying more than its share of U.I. taxes to subsidize high-unemployment industries at the maximum tax rate, like homebuilders. Labor-business negotiations led to a proposal that took a huge bite out of the cross-subsidy issue, saved Boeing \$5-7 million a year, prevented a scheduled tax increase for all employers and made significant benefit concessions.

But given Boeing's momentum, business lobbyists sensed they could get even more. They began separately negotiating with legislative leaders and during a second overtime session in June 2003, without so much as a public hearing before the vote, they succeeded in passing sweeping legislation that made dramatic changes to the U.I. system. It drastically cut benefits, cut the maximum benefit duration from 30 to 26 weeks and created significant new eligibility restrictions.

In the years since, acknowledging that the U.I. cuts unfairly and unnecessarily harmed

Our economy's safety net

	U.I. benefits paid in Washington, Jan-Dec. 2009	Local economic activity from those benefits
Adams	\$ 5,058,000	\$ 8,295,000
Asotin	4,708,000	7,721,000
Benton	57,807,000	94,803,000
Chelan	32,240,000	52,874,000
Clallam	30,871,000	50,628,000
Clark	195,268,000	320,240,000
Columbia	1,123,000	1,842,000
Cowlitz	64,990,000	106,584,000
Douglas	16,705,000	27,396,000
Ferry	3,926,000	6,439,000
Franklin	24,677,000	40,470,000
Garfield	388,000	636,000
Grant	40,319,000	66,123,000
Grays Harbor	51,652,000	84,709,000
Island	29,362,000	48,154,000
Jefferson	11,791,000	19,337,000
King	1,192,802,000	1,956,195,000
Kitsap	103,763,000	170,171,000
Kittitas	18,749,000	30,748,000
Klickitat	7,451,000	12,220,000
Lewis	50,103,000	82,169,000
Lincoln	3,501,000	5,742,000
Mason	31,194,000	51,158,000
Okanogan	20,181,000	33,097,000
Pacific	11,188,000	18,348,000
Pend Oreille	7,661,000	12,564,000
Pierce	482,425,000	791,177,000
San Juan	4,627,000	7,588,000
Skagit	71,194,000	116,758,000
Skamania	5,621,000	9,218,000
Snohomish	514,788,000	844,252,000
Spokane	219,520,000	360,013,000
Stevens	26,020,000	42,673,000
Thurston	112,408,000	184,349,000
Wahkiakum	2,085,000	3,419,000
Walla Walla	13,022,000	21,356,000
Whatcom	98,416,000	161,402,000
Whitman	4,023,000	6,598,000
Yakima	94,623,000	155,182,000
Other/out-of-state	300,759,000	493,245,000
Total	\$ 3,967,006,000	6,505,890,000

Source: WA State Department of Labor and Industries

laid-off workers, the Legislature took steps to mitigate some of the damage done.

Certain business lobbyists and elected officials have suggested that the restoration of some of the benefits cut in 2003 amounted to renegeing on the 787 deal with Boeing. The truth is, Boeing supported the biggest and most contentious restoration of benefits in 2005, testifying in support of EHB 2255 to restore two-quarter averaging for benefit calculation.

WHAT'S NEXT IN 2010?

With Boeing's decision to expand 787 production in South Carolina instead of Washington, business lobbying groups are again blaming our "business climate," citing our comparatively high U.I. taxes, among other things. (For its part, Boeing said its decision was based on "workforce stability"

and its desire to have a second, competing workforce—one that will discourage work stoppages and wage/contract improvements among Boeing employees here in Washington.)

Business groups are again seeking to cut unemployment benefits and restrict eligibility in 2010. They point out that, despite last year's passage of U.I. tax rate cuts, the amount many employers pay in U.I. taxes has increased in 2010.

That has happened because those employers have laid off workers and our U.I. tax system—designed by the business community itself in 2003—is experience-rated. That means employers that lay off workers pay more and those that retain workers don't.

The truth is, last year's tax cut will keep 2010-15 tax rates \$377 million lower than they would have otherwise been. Assuming the economy recovers, the tax cut will save businesses some \$1.6 billion every five years after that.

Washington's labor movement believes ideological efforts to slash benefits in the name of "improving our state business climate" deliberately ignore the positive impact of our U.I. system, and should be opposed. In fact, in 2010, our state should be looking at ways to *strengthen* our U.I. system by expanding eligibility. This would further boost our economy and bring more federal dollars to the state.

For example, our state could capture some \$98 million in federal U.I. Modernization Funds if the legislature extends unemployment eligibility to part-time workers and to workers facing undue hardship. Granting benefits to these struggling families is not only the right thing to do morally, it will pump more money into our state economy and that's good for business.

Acknowledging the economic stimulus power of U.I. benefits, state lawmakers approved a temporary boost in benefits last year. But that boost expired on Jan. 1, 2010, effectively cutting benefits by between \$45 to \$71 a week.

Given that we are experiencing a "jobless recovery" with economic data indicating revived consumer spending and profits, but few jobs, all stimulus benefits targeted to working people like last year's temporary UI increase, should be maintained. Therefore, the Washington State Labor Council is advocating to restore those benefits.

This is the worst possible time to cut benefits, and in fact, it is the appropriate time to *increase* them, as we did in 2009.