

Outside the Echo Chamber

A fresh look at Washington State's business climate



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. It examines 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 the last 18 months it's pumped some \$5 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. About 18 months into this recession, it is sufficiently funded that our state can afford a major new U.I. tax cut effective Jan. 1, 2010 that will save employers hundreds of millions of dollars a year, while also temporarily increasing U.I. benefits.

In contrast, many states—including every state considered to be our rivals for Boeing and other aerospace industry jobs—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 cli-

mate 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 downturns, 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. Since February 2008, when the recession hit Washington and job losses began, about \$3 billion in benefits have been paid out in our state, according to Employment Security Department data.

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 the current recession, our unemployment insurance system has created \$5 billion

CONTINUED on reverse

in purchasing power on Main Street in Washington: \$85 million in Benton County, \$130 million in Whatcom, \$144 million in Yakima, \$156 in Thurston \$266 million in Clark, \$295 million in Spokane, \$634 million in Pierce, \$646 million in Snohomish, and about \$1.5 billion in King.

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 0.98%, the seventh highest rate in the nation, according to 2008 U.S. Dept. of Labor data. The U.S. rate is 0.65%. Employers paid an average \$437 per covered employee in 2008, which ties us with Connecticut for seventh highest.

But most employers here pay far less. 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 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 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 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?

Washington's labor movement believes we 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.

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.

Our economy's safety net

| | U.I. benefits paid Feb. 2008 thru July 2009 | Local economic activity from those benefits |
|--------------|---|---|
| Adams | \$ 4,743,000 | \$ 7,779,000 |
| Asotin | 4,476,000 | 7,341,000 |
| Benton | 51,824,000 | 84,992,000 |
| Chelan | 28,430,000 | 46,625,000 |
| Clallam | 28,550,000 | 46,822,000 |
| Clark | 162,363,000 | 266,275,000 |
| Columbia | 1,218,000 | 1,998,000 |
| Cowlitz | 57,504,000 | 94,307,000 |
| Douglas | 14,651,000 | 24,028,000 |
| Ferry | 3,635,000 | 5,962,000 |
| Franklin | 22,688,000 | 37,209,000 |
| Garfield | 298,000 | 489,000 |
| Grant | 34,950,000 | 57,318,000 |
| Grays Harbor | 43,747,000 | 71,744,000 |
| Island | 22,567,000 | 37,010,000 |
| Jefferson | 10,069,000 | 16,513,000 |
| King | 901,433,000 | 1,478,350,000 |
| Kitsap | 87,065,000 | 142,786,000 |
| Kittitas | 16,646,000 | 27,299,000 |
| Klickitat | 7,641,000 | 12,531,000 |
| Lewis | 43,093,000 | 70,673,000 |
| Lincoln | 3,036,000 | 4,979,000 |
| Mason | 27,516,000 | 45,126,000 |
| Okanogan | 17,561,000 | 28,799,000 |
| Pacific | 9,992,000 | 16,386,000 |
| Pend Oreille | 6,614,000 | 10,848,000 |
| Pierce | 386,430,000 | 633,745,000 |
| San Juan | 4,070,000 | 6,675,000 |
| Skagit | 56,149,000 | 92,084,000 |
| Skamania | 5,706,000 | 9,357,000 |
| Snohomish | 393,942,000 | 646,064,000 |
| Spokane | 179,834,000 | 294,928,000 |
| Stevens | 23,142,000 | 37,953,000 |
| Thurston | 95,382,000 | 156,427,000 |
| Wahkiakum | 2,014,000 | 3,303,000 |
| Walla Walla | 11,573,000 | 18,980,000 |
| Whatcom | 79,526,000 | 130,423,000 |
| Whitman | 3,882,000 | 6,367,000 |
| Yakima | 87,930,000 | 144,206,000 |
| Total | \$ 2,941,888,000 | 4,824,696,000 |

Source: WA State Department of Labor and Industries

Deep in the Heart of TAXES

This month, the president of the Association of Washington Business wrote a column praising Texas, one of our state's aerospace industry competitors, for keeping its unemployment insurance taxes low and for refusing to accept federal stimulus grants for its U.I. system.

Gov. Rick Perry made Texas one of just four states to refuse the \$7 billion in grants because Texas would have to fix its outdated eligibility rules to cover more low-wage, part-time and female workers. Texas ranks dead last among states with just 35% of its unemployed workers getting benefits, according to the Department of Labor. The U.S. average is 58%.

The low U.I. taxes in Texas—less than half the national average—may make the hearts of Washington's business-lobbying echo chamber go a-flutter, but all is not well in the Lone Star State.

The Texas system is insolvent. (So are the U.I. systems in our aerospace competitor states of North and South Carolina, and Kansas is getting there.) It went broke due to the recession—which is what it's there for. Funds were insufficient to cover even the comparatively low benefits that just one in three Texans are qualified to receive during this downturn.

The Texas Workforce Commission projects the state's U.I. fund will be underfunded by \$1.5 billion by October. Meanwhile, Gov. Perry still refuses to accept the \$556 million in federal aid offered to him, a stance scoring political points with his state's right-wing conservatives who oppose President Obama's stimulus plan. But it's going to cost Texas businesses.

The state will have to raise taxes—nearly doubling them by one estimate. Gov. Perry is trying to postpone the tax hike until after his 2010 re-election bid by selling an estimated \$2 billion in bonds to repay the feds. So in 2011, employers will not only pay a U.I. "deficit assessment" but also Installment #1 of a "bond obligation assessment" lasting several years.

In contrast, Washington's U.I. fund is stable and in no danger of insolvency. This year, state legislators temporarily boosted benefits and passed a \$377 million U.I. tax cut. So employers here get a double stimulus in this recession: billions in consumer spending and a tax cut.