Policy Matters Ohio

Unemployment Compensation

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Testimony to the Unemployment Compensation Reform Joint Committee

Hannah Halbert and Zach Schiller

Good afternoon, Chairmen Schuring and Peterson and members of the committee. My name is Hannah Halbert and I am a researcher focusing on state policies that impact working families for Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. We have previously testified on system financing and offered our own proposal that would ensure more Ohio workers qualify for unemployment insurance, while also creating a truly solvent system. Thank you for the opportunity to offer this supplemental testimony focusing especially on why a maximum duration of 26 weeks matters to Ohio workers and communities.

As this committee finalizes its recommendations to address solvency we urge the members to protect the number of weeks of benefits available to unemployment insurance claimants. In testimony from the Department of Job and Family Services (ODJFS) we learned that the average duration of unemployment benefits is just 14.6 weeks and a smaller share of Ohio recipients exhausts their benefits than in 45 other states. Using ODJFS data filed with the Department of Labor, I found that the majority (66 percent) of Ohio claimants were earning wages in the quarter following their initial claim. All of this data shows that Ohioans prefer to work and they are not treating unemployment insurance as an entitlement program. But some, like the nearly 70,000 Ohioans who claimed more than 20 weeks in benefits last year, struggle to find employment in an economy that still has fewer jobs than it had sixteen years ago.

I. Cutting weeks ignores continuing challenges in Ohio's economy.

Ohio's unemployment rate has improved, but cutting weeks ignores continuing challenges. Even though Ohio is back to the number of jobs it had when the national recession officially began in December 2007, Ohio still needs 80,000 jobs to regain its pre-recession employment rate.[1] Job posting data from online job ads available at OhioMeansJobs.com show that there were about 100 Ohioans looking for jobs in July for every 60 job postings.[2] In some regions, this gap is much larger. In Appalachian Ohio, there were only 26 postings for every 100 unemployed Ohioans. There are areas that struggle with few openings or have openings that require certifications and training that not all unemployed workers have. Technology and trade have changed where the jobs are, what the jobs are, and how employers find potential hires. Reemployment takes time.
The loss of spending stabilization from unemployment cuts will make it challenging for families in hard-hit communities, and businesses dependent on family spending will find it harder to survive a

[1] Ohio Job Deficit from the Economic Policy Institute based on data from the Bureau of Labor Statistics, comparing jobs to population growth as of September 2016. The 88,000 includes the 78,300 jobs Ohio has gained since the
[2] OhioMeansJobs.com, Job Posting Trends, July 2016, from the Conference Board Help Wanted OnLine Series, posting data produced using "real-time" information for June 14, 2016-July 13,206, available at http://bit.ly/2eai3P6, accessed August 29, 2016.

downturn, whether they are facing a national recession or a local mass layoff. Research shows that each dollar of unemployment benefits paid adds $1.61 to Gross Domestic Product.[3] Cutting maximum duration will mean these workers and the communities they live in have fewer supports to make this transition.

II. Cuts to Unemployment duration do little for employment, but lead some to stop seeking work.
Well-designed studies show that unemployment benefits support job search and keep jobless workers attached to the labor market.[4] Recent research on the effect of unemployment extensions on aggregate employment compared more than one thousand county pairs along state borders.[5] The counties shared geography, similar economies and economic conditions, but had different maximum lengths of unemployment duration. The researchers found that increasing benefit weeks from 26 to 99 led to a 0.09 percentage point decline in the employment-to-population ratio. Conversely, longer benefits improved employment levels in counties paying longer benefits by 0.41 points, a change likely due to stabilized spending. Overall, they concluded that there were **no significant disemployment effects** from extended unemployment benefits. This new research suggests that concerns "about disincentivizing job-search efforts may be over-blown."

The findings also support earlier work evaluating the effect of North Carolina's drastic cuts to their unemployment system, which were justified as necessary for solvency and to encourage claimants to get back to work. After these cuts were implemented, North Carolina's unemployment rate did fall, but not because more North Carolinians were on the job. One study said, "The significant impact of North Carolina labor-force policy was to increase the number of workers who left the labor force, not to encourage those without jobs to become employed."[6]

Mass layoffs and recessions can alter the industrial composition of a region. Some jobs vanish and workers then need to reskill to compete for emerging industries. Twenty-six weeks of unemployment, the national standard since 1968, gives job seekers time to come to terms with the job loss, assess opportunities, and engage in education and training.[7] House Bill 394 proposed to use a sliding scale to set maximum duration.[8] If the proposal were in place today, unemployed Ohioans would have just 12 weeks to find work. Such a change would make Ohio's unemployment system one of the weakest in the nation.[9]

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[3] Blinder, Alan S. and Mark Zandi, "The Financial Crisis: Lessons for the Next One," Center on Budget and Policy Priorities, October 2015, available at http://bit.ly/1hII8q2, accessed August 29, 2016.
[4] For a summary of research showing that unemployment benefits support job search and labor market participation by claimants, see National Employment Law Project, Unemployment Insurance Advocate's Toolkit, Chapter 4C: "UI: Preventing Poverty, Supporting Job Search, and Helping the Economy," available at http://bit.ly/2dZ6hfa.
[5] Christopher Boone, Arindrajit Dube, Lucas Goodman, and Ethan Kaplan, "Unemployment Generosity and Aggregate Employment," September 2016, available at http://bit.ly/2frHpOl.
[6] Patrick Conway, "North Carolina's Employment Record: What role did Unemployment Insurance Reform play?" University of North Carolina at Chapel Hill, Department of Economics, December 2015.
[7] National Employment Law Project, "*Why every state should pay 26 weeks of UI benefits,*" October 2015, available at http://bit.ly/2ead94J. Until 2011, all states provided at least 26 weeks through their state UI programs.
[8] Construction workers would get a flat 20-week maximum under the current iteration of HB 394.
[9] Only five states (Florida (12-23 weeks, 2012), Georgia (14-20 weeks, 2012), Kansas (16, 20, or 26 weeks, 2014), North Carolina (12-20 weeks, 2013), and very recently Idaho (10-26, 2016)) have a scalable maximum like that proposed in HB 394. Four states have a flat maximum lower than 26 weeks: Arkansas (20 weeks, 2015), Michigan (20 weeks, 2012), Missouri (20 weeks, 2011), and South Carolina (20 weeks, 2011).

Cuts to a flat number of weeks also have real consequences to workers, businesses, and communities. If legislators had cut Ohio's maximum duration to 20 weeks last year, that would mean about 70,000 Ohioans would have lost up to a month and a half of benefits. That's a month and a half of income to help cover rent, groceries, and necessities like gas and internet service to help with job search. Research shows that duration cuts drive faster-than-average declines in unemployment recipiency rates.[10] Cutting weeks to 20 drove Michigan's recipiency rate to a record low 22.3 percent.[11] Researchers estimated that the cuts reduced that state's recipiency rate by 11.9 percentage points. They estimated this led to a 34.8 percent drop in the number of workers claiming benefits. Ohio already provides benefits to fewer of its unemployed workers than most states do, and has done so for a long time. This committee should reject proposals that further threaten coverage.

We would also like to comment on the suggestion that the General Assembly consider eliminating the state income tax on unemployment benefits. This deserves consideration. However, this is not advisable if it becomes a fig leaf for benefit cuts. Eliminating state income tax on benefits is a bad bargain if it is combined, for example, with a cut in maximum benefit weeks to 20. An unemployed worker getting the average unemployment benefit would lose more than $2,000 in benefits if they received 20 weeks instead of 26. This same worker would get a fraction of that in tax savings. Lower-income recipients would get little out of an income-tax cut. This illustrates that like everything else under consideration, this proposal needs to be considered as part of a whole plan to understand whether it makes sense.

Cutting benefits is a poor instrument for achieving solvency, and not just because it will harm Ohio workers, their families, and the local businesses dependent on their spending. As HB 394 demonstrated, much of these cuts are passed through to employers in the form of lower tax rates--the very opposite of what is needed to reach solvency. This committee has heard considerable testimony on the harm our high monetary rules already cause low-wage workers. The state should not take steps that will further limit this already-low share who receive benefits. Doing so would push families into deep crisis. Instead, we need a balanced approach that addresses our inadequate funding of unemployment insurance.

Thank you for allowing us to testify. We are happy to answer any questions that you may have.

Policy Matters Ohio is a nonprofit, non-partisan research institute with offices in Cleveland and Columbus.

[10] Rick McHugh and Will Kimball, "How low can we go? State Unemployment Insurance programs exclude record numbers of jobless workers," Economic Policy Institute, March 2015, available at http://bit.ly/1BjWt3b.
[11] H. Luke Shaefer and Michael Evangelist, "Families at Risk, Report II," The Michigan Unemployment Insurance Project, supported by the W.K. Kellogg Foundation, April 2014.