

V. REVIEWS OF BOOKS AND STUDIES

A REVIEW

Robert Hutchens, "Distributional Equity in the Unemployment Insurance System", Industrial and Labor Relations Review, April 1981.

Results

The study examines the distribution of unemployment insurance benefits across income classes. The data used in the study come from a version of the 1970 Brookings Merge file that is corrected for underreporting of UI benefits. The new data are superior to the earlier version of the same file, used by Feldstein for a similar end. The presently used data are based on actual 1970 data (the 1970 Current Population Survey and 1970 Internal Revenue Service tax file) and in consequence do not require 'aging' techniques. The new data presented support previous claims that a large share of UI benefits flow to middle and upper income groups. The data also show, however, that earlier studies underestimated the extent to which lower income groups benefit from the program. Also the present study employs a more sophisticated correction methodology, which permits the frequency and level of underreporting to vary with an individual's sociodemographic characteristics.

The paper investigates whether the household survey data used in studies such as this are so flawed by reporting errors that they yield biased results. The author concludes that such errors have only a minimal effect. The paper closes with an analysis of why upper income groups received a relatively large share of UI benefits.

Hutchens concludes that his results may serve to mollify those critics who would like the UI program to be more redistributive.

Critique

The study presents interesting and useful empirical information about the distribution of UI benefits among income classes. However there is no real discussion of how such results are to be interpreted. Rather Hutchens seems content to work within the framework of Feldstein's premise (quoted in the paper) that UI --since it distorts the allocation of resources by increasing both the length and incidence of spells of unemployment--is

justified only if it meets income redistribution objectives. Though such a premise is appealing at a time of cutbacks in other social welfare programs that perhaps were redistributive, nevertheless the requirement that a single social program must always, in lieu of meeting an economic efficiency criterion, serve this end seems overly stringent. It seems to this reviewer that there will always be some transfer programs that are more redistributive than UI and some that are less, and that the degree of redistribution will provide only part of the answer to the relative merits of any given two (or more) programs. Would it not be more reasonable to insist that income redistribution analysis is conclusive by itself only in the larger context of the distribution of all transfer programs combined?

--Prepared by Paul J. Mackin, Division of Research Services,
UIS national office.



**Income
Security**

RESEARCH REVIEW

JOHN J. HORN, Commissioner

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No. 25

Little, Charles B. Socialized Costs & Fund Solvency.
Unemployment Benefit Advisors, Inc. Bulletin No. 124 U.C.
February 3, 1981. 12 pp.

This research paper concludes that "inadequate financing of socialized costs is a major reason for the current financing problems among the states. Unless this is corrected, financial difficulties will continue."

What are Socialized Costs?

Mr. Little defines socialized costs as "those which do not fall on the individual employer through the operation of the experience rating system...Two principal types of socialized costs occur: Overdrafts and noncharges." (p.1)

"Overdrafts occur when an employer's benefit costs are greater than the amount of tax he will be required to pay." (p.1)

"Non-Charges occur in nearly all states. Benefit payments in certain situations are considered 'beyond the control' of the employer and are not charged to that employer's experience rating record." (p.1)

Major Types of Socialized Costs Identified

Overdrafts result from each of the following:

1. Maximum tax rates limit liability for some employers. (p.3)
2. Some states write-off portions of negative balances. (p.3)
3. Business failures. (p.3)
4. Preferential tax rates for certain industries. (p.5)

Non-charging provisions vary widely among the states:

1. 39 states non-charge benefits paid following a disqualification for voluntary leaving. (p.3)
2. 38 states non-charge benefits paid following a disqualification for misconduct. (p.3)
3. 15 states non-charge benefits paid following a refusal of suitable work.
4. The state share of extended benefits are non-charged in eighteen states. (p.3)

How can Socialized Costs be Reduced?

1. Raising the maximum tax rate. (p.5)
2. Stricter disqualification provisions. (p.5)
3. Fewer non-charging provisions. (p.5)
4. Tighter administration. (p.5)

Summary

"The problem of socialized costs must first be identified and then measured...reduction can be accomplished by increasing the maximum tax rate and/or by reducing non-charging." (p.6)

"A second approach is to develop an orderly procedure for financing socialized costs...this is done in a variety of ways among the states. Some charge a flat rate to all employers and others charge in direct proportion to benefit experience." (p.6)

"In reserve ratio states, these extra assessments should not be credited to the individual employer's reserve account...If these extra assessments are added, the employer will eventually earn an artificially low tax rate." (p.7)

"There will not be any long-term solution to the financing problems facing many state UC systems until a greater effort is made to identify, measure and provide adequate funding for socialized costs." (p.7)

This research review was prepared by Donald L. Diefenbach,
Office of Income Security, New Jersey Department of Labor and
Industry

