baltimoresun.com

SECOND OPINION

A virtual meeting of The Sun's editorial board, where issues are discussed, opinions made.

DECEMBER 17, 2009

O'Malley takes the right path on unemployment insurance

Maryland business groups have been up in arms in recent months about automatic increases in unemploymet insurance payments that are about to kick in -- costing them $136-$383 extra per worker. It's a tough thing to take in the middle of a recession, but it is necessary to keep the fund solvent in the face of so many layoffs. Now Gov. Martin O'Malley has unveiled a plan that would shave $83 million off the tax increase companies will have to pay, allow companies to pay over a longer period of time and reduce the interest rate for late payments from 1.5 percent to 1 percent.

The reaction of the business community? It's not so thrilled.

Here's why: In order to afford those benefits, the O'Malley adminsitration is seeking changes to Maryland's unemployment insurance program that would make it eligible for an immediate infusion of $127 million from the federal government, and business groups don't like those changes. The Chamber of Commerce objects to the idea of enacting permanent benefit increases to attract one-time money. That's sound logic, but it falls flat under the current circumstances.

To be eligible for the federal money, Maryland would have to change the way it determines eligibility for unemployment benefits, tinker with its recently enacted expansion of benefits to part-time workers, and expand benefits in one of a number of ways suggested by the federal government; the O'Malley administration is choosing to extend benefits to laid-off workers in job training programs.

The eligibility change is the most expensive of the three, costing perhaps $17 million a year. Right now, Maryland calculates benefits and eligibility by looking at a worker's wage and hours history over the first four of the last five quarters. Any recent work history doesn't count. That made sense when the system was designed because it took time to gather such data, but it doesn't anymore. Under what is known as "alternate base period," Maryland would be able to consider the more recent data if it would improve an applicant's eligibility. Thirty-six other states already do this, and the general consensus is that the federal government is going to mandate this system at some point. Maryland might as well get some money for it.

The benefit for part-time workers is something Maryland moved to enact before the federal government outlined its incentive program, so some of the definitions in law will need to be changed slightly for the state to qualify. This benefit has been widely misunderstood. Businesses have always paid unemployment insurance for part-time employees, and those workers have always been eligible to collect beneifts -- so long as they are looking for full-time work. The new benefit merely extends eligibility to those looking for part-time work, a small subset indeed. Despite the hue and cry from the business community, the change has only cost about $600,000.

For the third change, the administration had a choice between extending the duration of benefits for workers in job training programs, increasing the benefits for dependents or allowing benefits for people who quit for specified reasons, such as to take care of a sick family member. Of the three, the job training benefit was cheapest and makes the most sense from a policy standpoint.

It also was the preferred option of the business community because it will contribute to the development of a better-trained work force. It's expected to cost, at most, $2 million a year.

So the permanent benefit increases the business community is worried about are $17 million for the alternative base period we'd probably have to adopt eventually anyway and $2 million for something that actually benefits them as much as the workers. What's the problem here?

Businesses often look at unemployment insurance as a tax, but it really is a benefit for them as much as it is for workers. The money paid in benefits gets injected directly back into the local economy. Without it, recessions would be deeper, and businesses would suffer more. Moody's Economy.com estimated this year that every dollar in unemployment insurance benefits is worth $1.63 to the economy, the biggest bang for the buck of any of the economic stimulus methods it considered other than food stamps.

When the changes the O'Malley administration is proposing go before the legislature for approval, the business community will likely try to engage in some horse trading to reduce benefits in other areas to make up for the increases required to get the federal aid. But there's no need for that. The administration's proposal is good for workers, good for the health of the Unemployment Insurance Trust Fund and good for Maryland's economy.

Posted by Andy Green