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Summary

The federal unemployment insurance tax is levied on employers in every state primarily to cover administrative costs of state employment agencies, but only 62 percent of the tax collected here is returned to Oregon. To stimulate the economy and employment, the federal government should return the rest of Oregon's money and let the state manage its own affairs.

Word count: 713

“With employment in Oregon declining, it’s time to demand that the federal government quit taxing employment in the state just to balloon the federal surplus.”

Give Oregon back its money

By William B. Conerly, Ph.D.

With employment in Oregon declining, it’s time to demand that the federal government quit taxing employment in the state just to balloon the federal surplus. Oregon sends about \$84 million a year to Washington, DC in the federal unemployment insurance tax, but only gets \$52 million back.

The federal unemployment insurance tax (called FUTA, after the Federal Unemployment Tax Act) is collected from employers, then returned to the state for things like the administrative expenses of the Oregon Employment Department. However, only 62 percent of the dollars collected from Oregon find their way back home. (This is separate from the state unemployment insurance tax, which funds actual benefit payments.) Congress collects more FUTA taxes than it spends in order to keep the budget surplus high, a victory for window-dressing over substance.

FUTA is a tax on jobs. The strategy that used to reduce cigarette and alcohol consumption—taxing them heavily—also reduces employment.

This federal system also stifles state creativity. The formula for distributing administrative funding is based on workloads, so if a state were to do a better job of getting people back to work, it would lose funding. The system actually provides perverse incentives against better services to the unemployed.

The first step in returning the money to the states is to stop collecting it. After the 0.8 percent federal tax is eliminated, Oregon could levy a tax of only 0.5 percent of wages and cover its own administrative expenses. The tax cut would come at a time when job creation is sorely needed.

Oregon already collects unemployment insurance taxes from employers, so the only change for employers would be a reduction in paperwork. Small businesses will gain from that idea.

The excess FUTA taxes build up in federal trust funds. Our state’s share is now about \$285 million, or more than five times Oregon’s annual administrative expenses now paid by the federal government. Returning that money to the state

trust fund, which pays the actual unemployment insurance benefits, would allow Oregon to take responsibility for its own affairs. Further, with that addition to the state trust fund, Oregon could afford to delay implementation of the new administrative tax until the recession is over.

In addition to the administrative expenses paid for by the FUTA tax, the federal trust fund provides loans to states that run out of money in their state unemployment insurance funds. As a source of loans to the states, though, the federal trust fund is expensive. States can borrow at lower rates in the public markets because of the tax-exempt status of state debt, or states can agree to borrow and lend among themselves.

The final function of FUTA is to provide the “federal share” of extended benefits, which kicks in during recessions. Officially, half of these benefits come from the state, and half from the federal government. However, the federal half comes from money collected from the tax on jobs in every state. As such, there is no separate honey pot of funds for the federal expenditures: the money really comes from the states.

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