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THE PRESIDENT HAS SEEN *def.*
EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JAN 27 1975

ACTION

MEMORANDUM FOR THE PRESIDENT

THROUGH:

Roy D. Ash *Ash*

FROM:

Paul H. O'Neill *O'Neill*

SUBJECT:

Should permanent changes in the Unemployment Insurance (UI) law be proposed now?

Background

Before your October 8 National Employment Assistance Act (NEAA) proposal, you urged congressional enactment of the Job Security Assistance Act which was initially proposed in April 1973. Basically, this proposal sought to extend UI coverage to farmworkers, increase maximum weekly UI benefits, and bar UI benefits for strikers. During the oil embargo a title was added to extend benefits for covered workers and provide limited unemployment benefits to uncovered workers. This title was then added to NEAA and was the basis for the recent unemployment laws. The other UI legislation was not seriously considered in either chamber.

The Department of Labor now recommends a more extensive UI proposal. The key new features would: (1) mandate UI coverage of domestics and additional State employees; (2) permanently extend benefits for some workers to 39 weeks regardless of economic conditions; and (3) increase the Federal Unemployment Tax (FUTA) rate by 10% and raise the wage base from \$4,200 to \$6,000 with future adjustments tied to the national average weekly wage. The provision barring benefits for strikers would be dropped.

Most of the provisions would become effective in January 1977. Projected annual employer cost of this package for FY 78-80 is between \$3.5 and \$4.9 billion. FUTA tax receipts are not adequate now to cover both administrative costs and the Federal share of extended benefits. General fund advances make up the difference.

Pros

- Legislation will probably be introduced to increase the UI benefit levels to 66-2/3% of the worker's former weekly wage and the Congress could take a costly initiative in this area. An administration proposal could establish a more favorable framework.
- State action to improve benefit levels so that 80% of the workers would receive 50% of their former weekly wage has been inadequate. In light of current and projected economic conditions and the employer cost, further State action is unlikely.
- Extension of coverage and increases in the maximum weekly benefit levels, even if not effective until January 1977, would demonstrate concern for unemployed workers.
- The temporary coverage financed from general funds could become semi-permanent. Covering presently excluded workers under UI would result in eventual general revenue savings and prevent anomalies resulting from the patchwork of coverage. For example, States and localities who permanently cover workers must finance the benefits, while those who do not have the benefits Federally funded.
- Proposing a 39 week individual worker duration would stave off permanent extension of UI benefit duration to 52 weeks.
- A shortfall in FUTA tax receipts would force more general fund advances and increase the deficit.

Cons

- The effective date of the proposed improvements is January 1977. This is not needed as an immediate response to present economic conditions.
- To meet immediate needs a substantial (\$4-7 billion) temporary program has been mounted which both lengthens duration and includes workers not covered in the permanent UI program.
- This would contradict your "new new spending programs" policy.

- There is inadequate analysis to determine
 - what the maximum weekly benefit should be to meet individual needs.
 - what the effect of higher and longer benefits would be on a recipient's efforts to find work.
- Proper evaluation of the temporary program should be done before developing permanent changes in the law.
- Added payroll taxes may increase the disincentive to hiring more workers.
- This legislation would require State conforming legislation and may create resistance due to the low balances in State unemployment trust fund accounts and the substantial costs that would accrue to employers.
- If additional FUTA taxes are desired, a separate bill could be requested before January 1, 1977.

Recommendation

In view of the extensive changes recommended, the increased outlays that will result, and the opportunity to learn from the temporary programs, we recommend against trying to develop UI legislation now. If you agree, we will send the proposal back to Labor, without going through the clearance process, with a request for more analysis of the current experiences.

Decision

Proceed to clear legislation

Request further analysis based on temporary program operation *MC*