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The Unemployment Racket **by Laurence M. Vance**

Americans have many options when it comes to insurance. They can freely get health insurance, life insurance, cancer insurance, dental insurance, disability insurance, homeowners' insurance, renters' insurance, parcel-shipping insurance, et cetera. Although auto insurance is required by state laws, it is still obtained from a private insurance company of one's choosing. One can even get insurance at the blackjack table. There is one kind of insurance, however, that the government itself provides, forces everyone to obtain, mandates that someone else pay for, is not customizable to one's situation, and doesn't fully cover one's losses: unemployment insurance.

Buried in the Supplemental Appropriations Act for 2008 (H.R. 2642) was a provision to extend unemployment insurance benefits for those who had exhausted their benefits. Before President Bush signed what he called this "measured expansion" of unemployment benefits into law on June 30, 2008, the U.S. House of Representatives had previously passed the Emergency Extended Unemployment Compensation Act (H.R. 5749). Most recently, the Unemployment Compensation Extension Act of 2008 (H.R. 6867) was passed overwhelmingly by Congress, and signed into law just before the Thanksgiving holiday. Congress had not previously extended unemployment benefits since 2002.

The details of these plans are unimportant. They all extend a racket that is based on coercion.

How it works

After Wisconsin originated the concept of unemployment insurance in 1932, the federal government imposed the program on the states by means of Titles III, IX, and XII in the Social Security Act of 1935 and the Federal Unemployment Tax Act of 1939 (FUTA). The U.S. Department of Labor oversees the unemployment-compensation system, but it is administered and mostly funded by the states.

Unlike Social Security and Medicare taxes, which are borne by both employer and employee, unemployment taxes are paid solely by employers. Three states (Alaska, New Jersey, and Pennsylvania) levy an additional unemployment tax on employees.

Although it began as a 1 percent tax on the total wages of a worker, the federal unemployment tax, like social-insurance taxes, was soon imposed on a taxable wage base. Until 1971, that base was \$3,000. It was increased to \$4,200 in 1972 and to \$6,000 in 1978. It reached its current high of \$7,000 in 1983 thanks to the Tax Equity and Fiscal Responsibility Act of 1982, which also raised the unemployment- tax rate from 5.2 to 6.2 percent. That rate is actually made up of a base rate and a temporary surtax of 0.2 percent added by Congress in 1976 that has been extended ever since, most recently in the Emergency Economic Stabilization Act of 2008 (the bailout bill).

The fifty states likewise assess employers an unemployment tax that ranges from a low of 5.4 percent to a high of more than 10 percent. More than half of the states also have a higher taxable wage base than that of the federal government. Moreover, most of the states stipulate that their wage base will automatically adjust upward if the federal base under the FUTA is raised.

Because the FUTA allows an employer to claim a credit against his federal tax liability as high as 5.4 percent for payment of state unemployment taxes, the effective federal rate is actually 0.8 percent. That results in employers' paying annually for each employee an unemployment tax of \$56 to the federal government. On the state level, the percentage of the state taxable wage base actually paid as unemployment tax depends on a variety of complex factors that are determined differently by each state.

As long as various eligibility requirements are met, unemployment benefits can generally be collected as long as 26 weeks. In some states, employees whose work hours are reduced can collect unemployment benefits for the hours they are no longer working. Since the Tax Reform Act of 1986, unemployment benefits, unlike other social-welfare benefits, must be included in a taxpayer's gross income.

Private unemployment insurance does exist. However, most plans require participants to first qualify for government unemployment benefits before they will process a private unemployment-insurance claim. And having private unemployment insurance does not enable one to opt out of the government unemployment-insurance system.

Obviously, an employer's having to shoulder the burden of paying federal and state unemployment taxes increases his labor cost and therefore his cost of doing business. And adding this tax to the employers' share of his employees' Social Security and Medicare taxes that he is mandated to pay results in a labor cost that is much higher than the hourly wage employees are actually getting paid.

Coercion and compulsion

So why unemployment insurance? The federal government neither provides nor mandates other types of insurance. A breadwinner's losing his life is certainly more devastating to a family than a breadwinner's losing his job. So why isn't the government in the life-insurance business? Consistency was never a hallmark of the U.S. government. And just how efficient is the government unemployment system? We know that government programs are notoriously inefficient and wasteful. What makes anyone think that a government insurance program will not be just as inefficient and wasteful? And how adequate are government unemployment benefits anyway? The unemployment benefits that an unemployed worker receives are never enough to replace the wages lost. Would someone insure his home for less than half its value?

The real issue, of course, is not the inconsistency, inefficiency, or inadequacy of the federal government, but freedom from compulsion in insurance.

Is it a humiliating thing to lose a job? Yes. Can it lead to economic hardship? Indeed. Can it be a difficult experience looking for a comparable job? Certainly. Can it put a strain on families? Of course. Sometimes, though, losing a job can be a blessing in disguise. But whether losing a job is a blessing or a curse, in the absence of government unemployment insurance, provision could be made for the possibility of experiencing a period of unemployment in the form of private insurance, an employer/employee severance-pay agreement, or an earmarked savings account. The carefree soul could simply do none of the above and take his chances. After all, most people don't *lose* a job; they *leave* a job.

What happens to the typical unemployed person after his unemployment benefits run out? The same thing that happens to him without unemployment insurance: he finds a job. Perhaps not the job he desires, but he finds a job. Without unemployment benefits, someone who is laid off might have to rely on his spouse's income or work the night shift at McDonalds while during the daytime looking for work, retraining for another line of work, or going back to school. But those are the same things that happen when someone quits a job without having another job lined up.

The unemployment tax, although hidden from employees, is still a tax. Every tax punishes productivity in both seen and unseen ways. And government's meddling in the economy— even for an ostensibly good purpose — always results in unforeseen negative consequences. And of course, if you subsidize something, then you will get more of it. And unemployment is no exception.

There is no telling what kind of creative insurance, savings, and severance packages would exist in a truly free labor market.

The rate of unemployment

The other side of the unemployment-racket coin is the unemployment rate. When Mark Twain popularized the dictum about there being three kinds of lies — lies, damn lies, and statistics — he should have added government statistics to the downward spiral. As the late economist Murray Rothbard said, “Statistics are the eyes and ears of the bureaucrat, the politician, the socialistic reformer.”

About the end of the first week of each month, the Bureau of Labor Statistics (BLS), part of the U.S. Department of Labor, publishes the official monthly unemployment rate for the previous month. The unemployment rate at the beginning of 2008 was 4.9 percent. By August, it had risen to 6.1 percent. At the end of 2008, the unemployment rate stood at 7.2 percent. Since World War II, the annual unemployment rate has ranged from a low of 2.9 percent to a high of 8.5 percent. How does the government determine these figures?

According to the BLS,

Because unemployment insurance records relate only to persons who have applied for such benefits, and since it is impractical to actually count every unemployed person each month, the Government conducts a monthly sample survey called the Current Population Survey (CPS) to measure the extent of unemployment in the country. The CPS has been conducted in the United States every month since 1940 when it began as a Work Projects Administration project.

The CPS is a survey with a sample of 60,000 households chosen from 754 geographic areas selected from the grouping of the 3,141 counties and county-equivalent cities in the United States into 1,973 geographic areas. After subdividing each of the 754 areas into enumeration districts of about 300 households, each district is further divided into clusters of four, some of which are then chosen statistically to be interviewed by one of “1,500 highly trained and experienced Census Bureau employees” about the employment status of the household. After being interviewed for four consecutive months, the households in the sample are interviewed again a year later in the same four calendar months.

No one is ever asked specifically whether he is unemployed. Instead, interviewers simply ask a series of questions in a prescribed way and record the answers as data in their computers. Those data are all transmitted to a central computer that then classifies the respondents according to their labor-force status.

Just who these people are that are called by the Census Bureau I don't know. In the 30 years that I have been working, I have never been approached once, and neither has anyone else that I asked about this.

One would think that those who had a job would be classified as employed and those who did not have a job would be classified as unemployed. Such is not the case. Some people who do not even have a regular job are classified as employed. And someone's being unemployed doesn't mean that he is entitled to receive unemployment benefits. In fact, according to the BLS, "The unemployment data derived from the household survey in no way depend upon the eligibility for or receipt of unemployment insurance benefits."

One of the prime causes of distorted unemployment figures is the way the government determines who is in the labor force. All active-duty military personnel are excluded from the labor force even though all other employees of the federal government are included. Unpaid family members who work 15 hours or more per week in a family business are considered employed even though they earn no income. But what is so magical about the 15-hour mark? What logical reason could government possibly give for classifying someone as *unemployed* who regularly works 14 hours a week in a family business but classifying someone as *employed* who works one additional hour each week? And how can someone be classified as employed if he has no job and earns no income?

"Discouraged workers" without jobs who are not actively looking for work are not counted as part of the labor force. Yet someone who is unemployed but has actively looked for work at least once in the previous month (which could include simply calling on friends or relatives about a job) is counted. That means that if unemployed workers were reclassified as discouraged workers then unemployment would effectively disappear even though thousands of people would still be unemployed.

Persons without a job who are 16 or 17 and are looking for work are counted as being in the labor force and unemployed even though many companies won't hire anyone who is under 18. No wonder some economists who don't work for the government come up with unemployment figures that vary widely from the government's official figures.

Once the government tracks what it defines as the unemployment rate, the next step is for government economists (there are literally thousands of economists employed by the government) to analyze it. If the unemployment rate is more than the ideal rate, the natural rate, the inflation-threshold rate, or the nonaccelerating inflation rate (economists differ on both the rate and the terminology), then it is the job of the government to "do something" about the "problem" of unemployment by using its "tools" of monetary and fiscal policy. But even if the unemployment rate were judged by government economists to be low, the government would still have to "do something" because of the danger of inflation. After all, there is a trade-off between unemployment and inflation, or at least John Maynard Keynes said there was.

The idea that the government can choose to attain a lower unemployment rate by paying for it with a higher inflation rate, and that the government has the ability and the role of finding a happy medium between the two, is the twin sister of the fallacy that the government should

intervene in the economy to stabilize output and prices and avoid recessions and deflation, the fallacy that is the heart of Keynesian economics.

Conclusion

The aphorism “if you subsidize something, you get more of it” applies to unemployment benefits just as surely as it applies to welfare benefits. Thus, increased unemployment benefits will give us more unemployment.

The case against government’s providing unemployment insurance and attempting to achieve an optimal rate of unemployment is a simple one. And it has nothing to do with efficiency or ability. It is just simply that it is not the role of government to do those things. And it is certainly not the role of the federal government under the U.S. Constitution to do them. It is not the purpose of government to provide unemployment insurance, provide job training for someone who is unemployed, be concerned with who is or isn’t employed, or “do something” about unemployment. But then again, neither is it the purpose of government to make laws regarding minimum or maximum wages, overtime pay, child labor, family and medical leave, discrimination in hiring, collective bargaining, or workplace drug testing. Oh, and do I need to mention that the U.S. Department of Labor should be abolished?

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