SOUTHERN ECONOMIC ADVANCEMENT PROJECT

Building States' Labor Infrastructure

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ABOUT THE SOUTHERN ECONOMIC ADVANCEMENT PROJECT (SEAP)

SEAP is your partner and resource. We amplify the efforts of existing organizations and networks that work towards broadening economic power and building a more equitable future.

Broadening economic power brings attention to how race, class and gender intersect social and economic policy in the South. We explore policy ideas designed to directly address these connections. SEAP focuses on 12 Southern states and marginalized/vulnerable populations within the region and is a fiscally sponsored project of the Roosevelt Institute.

Introduction

Like the initial rounds of stimulus payments during the COVID-19 pandemic, the American Rescue Plan (ARP) signed into law by President Joe Biden on March 11, 2021, provides a federal supplement to the weekly unemployment insurance benefits for millions of Americans. However, since the historic number of unemployment insurance claims began last April, the underlying problem delaying payments to those that have suffered job loss has yet to be addressed.

Nearly one year after Congress passed the most expansive effort to address mass unemployment in America's history, many states continue to struggle to provide qualifying Americans with unemployment benefits. Since April 2020, there has been an average of 12.2 million Americans receiving unemployment benefits every month. Yet, speaking with them or the monthly average of 2.4 million unemployed workers that have not received unemployment benefits, you will learn of the widespread issues involving mistaken benefit denials, the under and over-payment of benefits and the multi-hour phone call queues.

The core challenge faced by all states and territories in implementing federally expanded unemployment benefits is due to inadequate infrastructure -particularly -technological and administrative. These two infrastructures are the foundation in being able to quickly and efficiently process and adjudicate unemployment claims.

Technological Infrastructure

Firstly, a state's unemployment program's typical technical infrastructure is based on matching monthly employer payroll reports to the employers and earnings listed on claimant applications. As a result, state labor departments heavily rely on software that automates the matching process and requires few caseworkers to manually adjudicate claims that are appealed or need additional information. State unemployment systems can depend on automation to process claims because most states exclude non-W-2 workers, such as independent contractors and the self-employed, from state unemployment compensation programs.

The CARES Act expanded unemployment benefits to previously ineligible workers, supplemented state unemployment benefits and provided states with billions of dollars to increase administrative capacity to process the surge in traditional and non-traditional (1099, Gig Workers, etc.) unemployment claims. However, the existing infrastructure of state unemployment programs was not easily amendable to address the expansion of eligibility. Initially, system servers crashed at the large number of unemployment insurance claims. Once servers were restored and upgraded, states struggled to automate claims of non-W-2 workers because the claims could not undergo the same payroll matching process as W-2 workers. To ease this pressure, a new software development matched non-W-2 workers' claims with income tax filings. However, a large swath of claims still required additional manual processing and adjudication.

Administrative Infrastructure

This leads to the second infrastructure limitation faced by state labor departments - administrative deficiencies. For decades, the number of state public service employees has declined drastically as many state legislatures have slashed or eliminated revenue allocations to labor agencies. State labor departments lacking local funding stay afloat using federal grants. These include programs that the U.S. Department of Labor (USDOL) administers in collaboration with state agencies: e.g., OneStop, WIOA, BLS, ETA. Federal grant funding is relatively stable from program-year to program-year, leading to the state labor departments' barebones administrative capacity.

There is a direct connection between the hollowing out of state labor departments -and the move to automate agency programs. During the last ten years, hundreds of years of irreplaceable institutional knowledge has been lost and job insecurity increased as state and local government employment declined by three percent, nearly 600,000 jobs. With modest federal funding and decreasing state budget allocations, state agencies were incentivized to reduce personnel expenditures, which grow due to pension obligations and increase their reliance on external vendors that oversaw the automated software from afar. The dependence on automated software developed by contractors, which are far removed from the actual business of unemployment claims processes and decimation of state agency administrative capacity, led to, and continues to be responsible for the considerable lag in the processing and correct payment of unemployment insurance claims.

Invest in Infrastructure

The billions of dollars allocated to assist states in the administration of unemployment compensation - where did they go?

The solution to processing unemployment claims in a timely manner is simple - states must hire more caseworkers to adjudicate claims. However, the lack of a funding commitment from either states and/or the USDOL to cover the cost of additional caseworker salaries beyond a few months has hampered state agencies' ability to adapt to the simultaneous increase in claims and changes in unemployment eligibility.

Under the ARP, and in the CARES Act that preceded it, the USDOL issued temporary grants to fund state agencies' unemployment insurance administration, as well as work-share program implementation and administration. However, states have refrained from building its administrative infrastructure because federal stimulus grants are designed to expire after a few months. State labor departments - are rational in fearing budget deficits and acknowledging that agency-employee cuts may be required after the federal aid runs dry.

The USDOL needs to invest in building the administrative infrastructure of state labor departments. Honoring the contributions of state civil servants means allocating adequate funding and providing fiscal relief to agencies that have been starved by misguided austere fiscal policy. It also means elevating the institutional knowledge and valuable experience of civil servants.

During our current crisis, investing in the people of state labor departments - will help bring back jobs and secure access to much-needed financial - stability for millions of Americans. In any crisis, whether it's public health or economic, investing in people is always going to help achieve recovery.