CHAPTER SIX
BUSINESS CLIMATE

1. Improving Washington State's Business Climate

Recommendations

1. Amend or repeal laws and regulations that impede business innovation and entrepreneurship.
2. Repeal outdated laws and regulations that no longer serve a public purpose and work only to keep competitors out of the marketplace.
3. Require the governor to review and approve new agency regulations.

Background

The effects of the Great Recession continue to be felt both nationally and in Washington state. The state's unemployment rate has been at or above nine percent since March 2009, and the private sector has shed 175,000 jobs since 2007, with only tepid job growth in 2011 and similar mediocre economic growth expected in 2012.

The economic impact has been especially hard on small businesses—the same businesses that have traditionally led our economy out of past recessions. There are many reasons why small businesses suffer disproportionately compared to their larger competitors. Some reasons are tied to national trends rather than local conditions, but the fact remains that job growth remains flat in Washington, and that is bad for the economy, the government and society in general.

Fewer small businesses (those with fewer than 50 employees) are able to afford health insurance for their workers.

There is a lack of qualified employees willing to work in certain industries. Even with some recent minor improvements, the state-imposed regulatory environment is more complex and difficult than ever. Washington has a relatively hostile business climate, which limits job creation and imposes a drag on general economic prosperity.

While the overall business climate is important to the economic vitality of the state, policymakers should in particular seek ways to help smaller firms.[1]

- Of the state's 225,990 firms, 96% or 217,490, are small businesses, as defined by the Small Business Administration (those with fewer than 50 employees).
- Approximately 387,500 people in Washington are self-employed.
- Small firms employed 41% of the state's private sector workforce.
- Just over 1.1 million people work for small businesses in Washington.
- Washington has the third highest business start-up rate and the second highest business failure rate in the country.
- It appears job recovery in the small business community, since the 2009 official end of the recession, is lagging behind job growth for larger firms.

While large businesses play an important role in creating and sustaining a viable economic climate, small businesses traditionally are a major catalyst for job growth and revitalization, but they are struggling to recover from this latest recession.

Policy Analysis

Entrepreneurs and businesses face numerous challenges every day. Some of the strongest threats to their economic survival come not from competitors, but from the confusing tangle of state, county and municipal regulations.

Washington entrepreneurs consistently find that state and local regulators represent significant obstacles to the realization of their dreams. The staggering amount of regulatory red tape amounts to more than 100,000 requirements that a small business owner must know, understand and follow in order to run a business legally. The regulatory structure strangles small businesses, drives up the cost of entering the market, impedes job creation and increases the cost of living for consumers.

Washington Policy Center has identified several problems small business owners say are the primary barriers to their success. Those problems are:

- The rising cost of health insurance
- A clogged transportation system
- The high business tax burden
- High-cost unemployment insurance
- The state workers' compensation monopoly
- Confusing and complex regulations
- Tort and liability expenses
- Access to affordable water and energy

Many of these issues are addressed in other chapters of this policy guide. Other sections in this chapter provide recommendations for how to improve the overall business climate, and discussions about affordable health care for small businesses, unemployment insurance, regulatory reform and estate tax repeal.

State and local policymakers should reduce government-imposed barriers for Washington entrepreneurs, which would expand economic opportunity for all citizens and promote a vibrant business climate today and for future generations.

Recommendations

1. **Amend or repeal laws and regulations that impede business innovation and entrepreneurship.** During the state's 122-year history, thousands of laws have been enacted that make it more difficult to start and run a small business in Washington. Policymakers should conduct a systematic review process to identify ineffective laws that should be amended or repealed.

2. **Repeal outdated laws and regulations that no longer serve a public purpose and work only to keep competitors out of the marketplace.**

Such laws harm consumers by keeping competitors out of the marketplace. Rules governing the for-hire vehicle, taxicab, hair care and moving industries are examples of antiquated or overly strict regulations that work against the public interest by reducing price competition and consumer choice.

3. **Require the governor to review and approve new agency regulations.** The steady stream of new agency rules have a huge effect on the business community. Submitting any new significant rule to review and approval by the governor would help slow the incessant flow of new regulations issued by state bureaucrats and would create clear accountability about who is responsible when new business restrictions are put in place.

2. Regulatory Reform

Recommendations

1. Regulate for results, not for process.

2. Reorganize the Office of Regulatory Assistance into an Office of Regulatory Reform that would identify regulations that duplicate or contradict each other, are outdated or do more harm than good.

3. Include a regulatory sunset provision for new regulations, and submit all existing regulations to review by the legislature every five years.

4. Create a regulatory fast track for companies and individuals with a good record of complying with regulations.

Background

The right to live where we choose, the right to own property, the right to make a living and the right to enter into voluntary agreements are all fundamental aspects of a free society. Respect for our natural rights is essential to maintaining civic life, and the central function and purpose of government is to protect the basic freedoms of its citizens.

Yet government itself often poses a grave and immediate threat to these rights. One of the most pressing public issues today is the ever-expanding scope and burden of government regulations and the implications of this trend for people's economic liberties.

The overall problem is summarized by a statement in an editorial from *The Seattle Times*, "Sometimes, the government simply doesn't know when to leave the marketplace alone."[2] Today, Washington citizens, small businesses and major industries face an expanding array of regulations at all levels of government.

The Burden of Regulation

Very small firms, those with fewer than 20 employees, spend 36% more per employee than larger firms in order to comply just with federal regulations. A firm with fewer than 20 employees might spend $10,585 per employee to comply with federal regulations, whereas a firm with over 500 employees would spend only $7,755 per employee.[3]

Today, regulations in our state fill 32 phone-book-size volumes, which together form a stack of paper over five feet high. These rules have the force of law, and they strictly control and limit the day-to-day activities of every person in the state.

The fundamental policy question facing the people of Washington and their elected representatives is: What is the right balance of government intervention versus economic freedom? The answer is that government power should be limited to the rules needed to assure public health and safety, help the needy and protect consumers, so that over-regulation does not choke off the oxygen the economy needs to thrive.

The drafters of Washington's constitution provided guidance by recommending "a frequent recurrence to fundamental principles," which is "essential to the security of individual rights and the perpetuity of free government."[4]

Within the limits of ordered liberty, it is the right of citizens to live as they see fit, not as the government directs. When state government oversteps its bounds by regulating the smallest details of lawful activities, it hinders the vibrant economic and social life of the community.

Government is the Largest Employer

Government is now one of the largest industry classifications in the state. Washington ranks among the highest states in the per capita tax burden, and it is among the highest in the overall cost of government it places on its citizens. One national study ranked Washington as the second-most regulated state. That same study ranked Washington at only 40th in economic freedom, well below top-ranked New Hampshire.[5]

Policy Analysis

The numbers provide ample warning that state government is becoming too large and expensive and is moving too slowly to adapt to the changing world around it. In combination with the burgeoning cost and size of government, the regulatory burden on Washington residents has increased substantially. As small business owners, nonprofit groups, homeowners, farmers and other ordinary citizens work to realize their dreams, they find they are increasingly frustrated by government regulators.

One builder of affordable housing calls the detailed permit reviews required by the Growth Management Act ridiculous, and says the process plods slowly and adds significant costs. Added costs include inventory carrying charges, fees for sophisticated engineering and extensive legal fees.

In the end, costs must be passed along to homebuyers in the form of higher prices, pushing many low-income families out of the housing market. One Vancouver builder found that government taxes and regulations added 22% to the sale price of his homes.[6]

A study by the University of Washington found that state and local land use restrictions add $200,000 to the cost of a home in Seattle, helping push the median inflation-adjusted home price in the city to $447,800.[7] The study's author noted that, "The state is intervening to restrict supply. It's not that there's no land at all."[8]

Examples of Easing Regulations

In New York, the governor created a Governor's Office of Regulatory Reform (GORR) to work with all agencies to reduce the number and complexity of state regulations. The office's message to citizens is explicit: "If you're getting the runaround or being unnecessarily hounded by one of our state agencies call us."[9] GORR officials say they will intervene and take care of the problem—fast. The office's goal is to make New York more attractive to business growth, and it has been credited with helping to create thousands of new jobs.

Another idea taking root among several states is the creation of a small business ombudsman for state government. The idea is based on the U.S. Small Business Administration's Office of the National Ombudsman (ONO). Like the federal office, a state-level ombudsman would be someone empowered to represent business owners as they navigate the confusing maze of state agencies and their thousands of pages of requirements.

The state ombudsman could listen to citizen complaints and investigate regulatory problems on their behalf. The federal office has saved small businesses across the country thousands of dollars. A state ombudsman would provide a similar benefit to Washington businesses.[10]

Regulatory reform is not just a domestic issue. The province of British Columbia, Canada, and Britain implemented strong regulatory reform efforts within the last decade.

In the early 2000s, British Columbia adopted an ambitious regulatory reform program. Entitled "A New Era for Small Business," the provincial government introduced over two dozen tax-relief measures that provided over $1 billion in tax relief; eliminated more than 70,000 regulations, effectively cutting red tape by one-third in three years; expanded their OneStop business service program to allow small businesses to complete government forms online; and introduced a first-job wage program to encourage employers to hire young people with no paid work experience.[11]

Between 2005 and 2010, the government of Britain undertook a similar reform, called the "Hampton Initiative," and cut the cost of red tape by $5.7 billion. Officials were concerned that some businesses were over-regulated and some were under-regulated. They based their effort on these principles:

1. All regulatory activity should be based on a clear, comprehensive risk assessment.

2. All regulators should provide broad-reach advice to businesses.

3. Form design guidelines should be established and regulators should use business reference groups to review the design of new and existing forms.

4. Regulators' penalties should be reviewed with the aim of making them more consistent and effective.

5. Regulatory bodies should be consolidated and regulations simplified, so that mandatory rules are not unduly complex and burdensome.[12]

Washington leaders do not need to reinvent the wheel of streamlining regulations. By following the successful examples of New York, Texas, Massachusetts and New Jersey, to name a few, or international efforts in British Columbia and Britain, policymakers can reform and modernize the state's Byzantine regulatory system.

Recommendations

1. **Regulate for results, not for process.** Measuring the results of the regulatory process, rather than the process itself, would enable policymakers to know whether state agencies are accomplishing their core mission or simply spending down their budgets. Focusing on measurable outcomes would free agencies, businesses and individual citizens to find the best way to achieve desired public good.

2. **Reorganize our state's Office of Regulatory Assistance into an Office of Regulatory Reform that would identify regulations that duplicate or contradict each other, are outdated or do more harm than good.** Currently, the Governor's Office of Regulatory Assistance only helps citizens navigate the complex maze of existing state regulations. It does not ask whether those requirements are in any way useful or needed. Reorganized as an Office of Regulatory Reform, it could actively review all state regulations and determine which ones duplicate or contradict each other, are no longer needed or do more harm than good to the public interest.

3. **Include a regulatory sunset provision for new regulations, and submit all existing regulations to review by the legislature every five years.** Under the current system, most state regulations are written to last forever. Policymakers should require all agency rules and regulations to carry a sunset provision, be reviewed every five years and, if still needed, be reauthorized by the legislature.

4. **Create a regulatory fast track for companies and individuals with a good record of complying with regulations.** To focus enforcement where it is needed, state regulatory agencies should authorize companies and individuals who have a good record of following environmental and regulatory rules to approve their own applications and permits. The results would be periodically audited by state oversight agencies. Companies and individuals that did not follow regulations voluntarily would be penalized, and their self-monitoring authorization would be revoked.

3. Estate Tax Repeal

Recommendation

Repeal the Washington estate, gift and inheritance tax.

Background

In 1981, Washington voters approved Initiative 402 to repeal the state estate tax. It passed by a greater than two-to-one margin.[13] State lawmakers then instituted a "pick-up tax" by taking a portion of federal estate taxes levied on deceased Washington residents.

In 2001, Congress enacted a ten-year phase-out of the federal estate tax. However, the Washington state legislature did not take action to conform state law to that change. As the federal tax was reduced year by year, the state Department of Revenue began collecting estate tax revenues at a rate higher than the legally allowed tax rate.

The top federal estate tax rate fell from 55% in 2001 to 35% in 2009 and went to zero for the year 2010. Congress re-implemented the tax at 35% for 2011 and following years, with a $5 million exemption amount.

The Washington Supreme Court ruled in February 2005 that, because of Initiative 402, the Department of Revenue is entitled only to a portion of federal estate taxes due, and that Congress's action in 2001 eliminated the ability of Washington to collect a portion of the soon-to-expire federal tax. The court's decision meant that, if the legislature did nothing, Washington's estate tax would have ended in 2010 when the federal tax expired.

In 2005, however, state legislators enacted a new estate tax. The new tax law "de-couples" Washington's estate tax law from the federal government's tax laws.[14] The 2005 law repealed Initiative 402 and reinstated a stand-alone Washington estate tax law.

Policy Analysis

The rate at which an estate is taxed varies from 10% to 19%, depending on the size of the estate. Estates in Washington are taxed if the assessed value exceeds $2 million. Family farms are exempt, but there is no exemption for family-owned small businesses.

The 2005 estate tax law imposes a significant financial burden on Washington citizens. The Washington Department of Revenue collected $178 million in estate taxes in fiscal year 2007, $105 million in 2008 and $136 million in 2009.[15] Total revenue from estate tax collection equals just under one percent of all state taxes collected.

Tax officials expect the amount of revenue they collect to increase over time, as inflation pushes the value of more estates beyond the $2 million threshold and more families are affected. Families are often forced to sell their business or other assets in order to pay the tax. Meanwhile, corporations in the same field of business are unaffected by the estate tax.

Recommendation

Repeal the Washington estate, gift and inheritance tax. The estate tax is counterproductive because it impedes economic growth and discourages family businesses from remaining in or relocating to this state. Most importantly, it is unfair, because it targets family-owned businesses that can least afford to pay it, while their larger, incorporated competitors are exempt.

4. Unfair Competition: Government vs. Private Sector

Recommendations

1. Policymakers should devote limited state resources to providing services in areas where the private sector is unable to provide services to the public.

2. Wherever possible, government agencies should refrain from regulating businesses or industries in which the state itself is an active competitor.

Background

When a business receives government support to the detriment of its competitor, that is, the competitor is legally barred from enjoying the same government support, that business is benefiting from unfair competition. When businesses are forced to compete against politically favored businesses, or against the government itself, they are less likely to prosper because they face higher costs in relation to their competitors.

One of the many dangers of government competing against the private market, or of granting politically favored businesses tax or regulatory exemptions, is the threat of a diminished tax base as disfavored businesses fail. A smaller tax base inevitably leads to higher tax rates imposed on the remaining businesses and their customers.

Washington state government competes against private businesses, or outlaws private competition, in a number of areas. Whether the state-sponsored competition is on a small scale, as in the state printing office, or a large monopoly, as in the industrial insurance market, there are a number of markets in which policymakers should end state operations that are not core government services. The state government should focus on delivering services that only it can provide, leaving the offering of private goods and services to the private market.

Policy Analysis

Unfair competition exists when a government entity uses its tax advantages or regulatory exemptions to supply goods or services to customers in competition with private citizens. Private business owners are therefore arbitrarily subjected to an artificial competitive disadvantage.

Small business owners are likely to be most impacted by unfair government competition. Small businesses are much more likely to start up quickly and expand rapidly as needs arise. These businesses are also more likely to face artificial barriers to success in the form of government regulations (see the Regulatory Reform subsection in this chapter), which chips away at thin profit margins.

A classic example is the Washington State Department of Printing. This office performs printing work for state government, including the legislature and state agencies. A government-owned printing office may have been necessary when it was created in 1854, but today there are hundreds of private printing businesses that could do the same work at competitive prices, saving taxpayers thousands of dollars every year.

Sometimes unfair competition comes in the form of a favorable tax or regulatory treatment. Washington's tribal businesses have benefited from special rules and regulations that gives the owners of these businesses a significant competitive advantage over non-tribal businesses. The special tax advantages tribal businesses receive are described in Chapter 2.

Whether in the form of fewer restrictive regulations, such as unemployment insurance, business and occupation taxes, or workers' compensation taxes, many tribal businesses are able to take advantage of the reduced regulatory environment to cut their prices, drawing customers away from competitors who do not benefit from special rules.

Recommendations

1. **Policymakers should devote limited state resources to providing services in areas where the private sector is unable to provide services to the public.** The people of Washington pay taxes to support

vital public services that cannot be provided any other way, not to subsidize state-run commercial operations. Policymakers should end government-owned commercial enterprises that the state uses to compete against its own citizens.

2. **Wherever possible, government agencies should refrain from regulating businesses or industries in which the state itself is an active competitor.** When a state agency enters a commercial market, it moves from being an impartial umpire to one of the players. To the extent possible, state officials should avoid regulating commercial activities in which they have a vested commercial interest.

5. Licensing to Restrict Competition

Recommendations

1. Refrain from using licensing restrictions to block citizens' access to a functioning market.
2. Review all laws and regulations and eliminate those that unduly impede innovation and entrepreneurship.
3. Eliminate duplicate regulations and consolidate the confusing range of local regulations at the state level.

Background

The state of Washington routinely certifies or licenses the practice of many different types of businesses. According to one national study, 35% of the national workforce is licensed or certified by at least one level of government (federal, state or local) and 29% are fully licensed. This is a drastic increase from 4.5% of the national workforce that was subject to direct government oversight in the 1950s.[16]

In Washington, the state requires businesses operating in scores of industries to become licensed or certified. A snapshot of license requirements from the Department of Licensing and the Department of Labor and Industries includes industries such as auctioneers, body piercers, collection agencies, court reporters, geologists, landscape architects, security guards, electricians, handymen and many more that have to be licensed in their particular trades. These two agencies have over 300,000 active licensees on file.[17]

While the state imposes hundreds, if not thousands, of regulations on myriad industries, local governments add their own burden on business owners. City and county government officials impose their own tailor-made regulations that businesses and entrepreneurs must follow. While it is important that local officials maintain a certain level of autonomy in writing rules that are specific to their environment, officials often use the upper hierarchical rules as a starting point for adding more regulations, creating a bewildering mishmash of rules for businesses that operate in several different jurisdictions. This raises the cost of regulatory compliance and creates a disincentive for smaller competitors to enter the market.

Policy Analysis

Entrepreneurs and businesses face numerous challenges every day. Some of the strongest threats to their economic survival come not from competitors, but from the confusing tangle of state, county and municipal regulations.

Unfortunately, when the state requires licensing, it is often trying to accomplish two goals that do not actually help consumers or small businesses: The state is raising money for itself through license or certification fees, and the state is shutting out potential competition for businesses that have endured the licensing process.

Licensing and certification are often touted as a way to "professionalize" a workforce or industry. However, mandating licenses quickly shifts from a standard that helps the consumer to a systemic barrier to market entry, particularly for low-income people who want to start a business.

It is reasonable for professions that demand high technical skill to require some form of certification, such as architecture, medicine or law, but often the needed oversight can be provided by private voluntary associations, like a guild, professional group, or an independent third party like the Better Business Bureau.

In addition, the internet now allows consumers to gain direct information about the qualifications of professionals they might hire. Angies's List, for example, is used by more than one million people a month to find reliable services at reasonable prices. List members post more than 40,000 contractor and provider reviews a month, including real-world assessments of doctors, dentists, roofers, plumbers, builders, house cleaners, auto mechanics and hundreds of other professions.[18]

These reviews are based on actual experience, and they provide consumer information that is far more reliable and relevant than whether a person for hire once passed a state licensing requirement.

Mandated license requirements have a significant downside. They create a barrier to market entry and can eliminate the incentive for a budding entrepreneur to start a new business, thus stifling job creation and denying consumers access to useful services.

Recommendations

1. **Refrain from using licensing restrictions to block citizens' access to a functioning market.** Licensing requirements should be kept at the minimum needed to protect consumers and preserve public safety. These public goals can often be accomplished through professional standards enforced by private associations. Government licensing should not be used to keep citizens from bringing new products and services to market or simply to raise money for government agencies through license fees.

2. **Review all laws and regulations and eliminate those that unduly impede innovation and entrepreneurship.** Laws and regulations build up over time with little coordination or follow-up to find out whether they are still needed or ever worked in the first place. Policymakers should conduct frequent and systematic reviews of all laws and regulations and eliminate those that block innovation and business creation while providing no benefit to the public.

3. **Eliminate duplicate regulations and consolidate the confusing range of local regulations at the state level.** Business owners face a bewildering array of rules and requirements imposed at the city, county and state level. Policymakers at all levels should eliminate overlapping regulations and simplify the administration of those that remain.

6. Unemployment Insurance Reform

Recommendations

1. Bring state benefits more in line with the national average.
2. Allow workers to have personal unemployment accounts.
3. Increase benefit compliance audits.
4. Require training or community service as a condition of receiving benefits.

Background

Washington's monopoly unemployment insurance system imposes one of the highest per-employee costs in the nation.[19] While the tax *rate* is not higher than most states, businesses in Washington must pay that rate on the first $31,400 of salary for each employee.[20] In contrast, businesses in most other states only pay unemployment taxes on the first $7,000 to $10,000 of salary, resulting in a much lower tax burden than Washington's.

Generous Benefits

A primary cost-driver of Washington's state-run monopoly system is the high level of benefits it pays out. The maximum unemployment benefit, at a generous $583 per week, is close to the highest in the nation. Washington's average weekly benefit payout is $325, 12% higher than the nationwide average of $290 a week.

Lawmakers make it easy for workers to receive tax-funded unemployment benefits. Among the ten reasons a person can use to get state unemployment benefits are, "to accept other work," a pay reduction of 25%, or a reduction in work hours of 25%.[21]

A person must have worked just 17 weeks to qualify for benefits. Employers, especially in the arts and seasonal businesses, often specifically design temporary employment positions so that a worker will receive unemployment payments once the employer has no further need of the employee. The level of benefits paid out is not based on financial need.[22]

In 2008, the legislature further expanded the unemployment insurance program. Lawmakers made employees who voluntarily leave their current work to join an apprenticeship program eligible to receive tax-funded benefits.[23]

Effort at Reform

In an effort to slow cost increases and promote job creation, the legislature passed major reforms to the system in 2003, most of which went into effect January 2004. The reforms included holding the maximum weekly benefit at $496, reducing the maximum time an employee can collect unemployment benefits from 30 to 26 weeks and changing the benefit calculation to include a full year of work, not just the two highest-paid quarters.

In 2005, however, the legislature reversed itself and repealed several key improvements from 2003—just when many of these reforms were beginning to have an effect. The legislature's sudden repeal of unemployment insurance reforms added an unexpected burden to the business climate and angered many small-business owners.

In 2006, the state legislature enacted a broad unemployment insurance package, making permanent the 2005 changes. Key among these are:

- Businesses would be taxed according to a four-quarter scale while worker benefits would be paid out by the two-quarter scale; therefore, most businesses would get some tax relief in their unemployment insurance premiums.

- The general unemployment insurance trust fund would pay the difference between the taxes collected from individual businesses and the benefits paid out to workers.

Policy Analysis

Today, Washington's unemployment benefits are among the most generous in the nation, and the average unemployment payroll tax imposed on workers is the second-highest in the nation, at $803 per worker.

High unemployment benefits increase unemployment because often the incentive to stay on unemployment is greater than the incentive to work. Many people will try to collect the maximum they can from the system, waiting until their benefits are almost exhausted before seriously seeking new employment.

In addition to discouraging work, the current employment tax system is fundamentally unfair. Despite a lifetime of paying in, workers receive no refund when they retire, and workers who have not been unemployed never receive any benefit at all.

Overall, Washington's high unemployment tax burden has four primary negative effects on the state economy:

1. It discourages job growth and deprives the people of Washington of new work opportunities

2. It encourages existing businesses to outsource jobs to other states

3. It has a smothering effect on start-up businesses and punishes successful businesses that attempt to hire more workers

4. It discourages businesses in other states from relocating or expanding their operations to Washington.

Given the overall high costs of Washington's unemployment benefits system, policymakers should consider an alternative system based on personal, portable worker benefit accounts.

Such an approach has worked in other countries. In 2002, Chile pioneered a new system in which workers pay 0.6% of their wages into a personal account administered by a private fund. Employers contribute an additional 2.4%. A portion of the funds go into the general fund to cover young workers and those who cannot contribute enough into their account to meet the minimum level of benefits.[24]

Key to the success of Chile's program is individual control of personal benefits. In contrast to the Washington system, unemployed workers in Chile can collect benefits whenever they are out of work for any reason, whether they are laid-off, fired or choose to leave their job. Strict qualification limits and punitive enforcement are not required because workers control their own benefits.

One of the best features of Chile's system is the built-in incentive for saving long-term. At retirement, workers keep all the money in their unemployment account. Washington's system has no such provision—employees here receive nothing from the system at retirement.

Recommendations

1. **Bring state benefits more in line with the national average.** When carried too far, high unemployment benefits increase unemployment. At a certain point the incentive to remain on subsidized unemployment is greater than the incentive to work. Studies show that job-finding activities and formal job placement rises dramatically in the final few weeks of benefit eligibility. Bringing benefits in line with the national average would reduce the cost of unemployment taxes and help ensure a competitive business climate, while maintaining adequate worker protections.

2. **Allow workers to have personal unemployment accounts.** Under the current system, Washington workers receive no refund or benefit when they retire, and workers who have not been unemployed receive no benefits at all. A system based on individual accounts returns fairness and equity to the system. Personal accounts promote individual responsibility, provide workers with an added financial asset, encourage saving for retirement, and would relieve the state of most of the administrative cost and complication of the current system.

3. **Increase benefit compliance audits.** In a recent performance audit, the state auditor praised the Employment Security Department for its fraud protection practices, pointing to the Department's automated claims management system as a model of efficiency. Ironically, many employers feel it is this system that encourages workers to avoid

seeking a job. Increasing audits of people who are on unemployment would help ensure that they are really complying with job-search requirements, rather than simply waiting for their benefits to run out.

4. **Require training or community service as a condition of receiving benefits.** Many people view unemployment benefits as a kind of paid vacation from the state. Job-search requirements are minimal and unenforced, so people often pursue personal interests while receiving unemployment checks. Weekly training and community service would help prepare unemployed people for a return to work and would provide a reasonable incentive to accept a job when one is available to them.

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