IMPLEMENTATION OF UNEMPLOYMENT INSURANCE PROVISIONS IN THE RECOVERY ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

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C O N T E N T S

IMPLEMENTATION OF UNEMPLOYMENT INSURANCE PROVISIONS IN THE RECOVERY ACT

THURSDAY, APRIL 23, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:00 a.m., in room B–318, Rayburn House Office Building, the Honorable Jim McDermott [Chairman of the Subcommittee] presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT

FOR IMMEDIATE RELEASE CONTACT: (202) 225–1025
April 16, 2009
ISFS–2

McDermott Announces Hearing on Implementation of Unemployment Insurance Provisions in the Recovery Act

Congressman Jim McDermott (D–WA), Chairman of the Subcommittee on Income Security and Family Support of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing to review the implementation and impact of the unemployment insurance (UI) provisions included in the American Recovery and Reinvestment Act of 2009. **The hearing will take place on Thursday, April 23, 2009, at 10:00 a.m. in B–318 Rayburn House Office Building**. In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled to appear may submit a written statement for consideration by the Subcommittee and for inclusion in the record of the hearing.

BACKGROUND:

In addition to initiating a variety of tax and spending provisions designed to protect and create jobs, the American Recovery and Reinvestment Act included several proposals to directly assist unemployed workers. The Recovery Act continues the Emergency Unemployment Compensation (EUC) program, which provides up to 33 weeks of federally-funded extended unemployment benefits, and temporarily permits full Federal funding for additional benefits in high unemployment States through the permanent-law Extended Benefits (EB) program. For the first time ever, the measure provides Federal funds to increase the amount of weekly unemployment benefits by $25. Additionally, the legislation increases administrative funding for processing unemployment claims, temporarily suspends taxes on UI benefits (up to $2,400) and waives interest payments for State UI programs requiring loans through next year. Finally, the new law provides up to a total of $7 billion in modernization grants for States that have or that put in place specific reforms designed to increase access to UI benefits for jobless workers, such as counting a worker's most recent wages when determining his or her eligibility. All of these benefits are to be administered by State unemployment agencies.

In announcing the hearing, Chairman McDermott stated, **"In the face of the worst economic crisis since the Great Depression, we responded in historic fashion to meet the needs of unemployed workers. We must now ensure the benefits are reaching jobless workers—both to help them and the economy. I expect most Governors will ultimately seize this opportunity to help workers who have paid taxes and who have lost their jobs through no fault of their own. "**

FOCUS OF THE HEARING:

The hearing will focus on the implementation and the impact of the unemployment insurance provisions in the American Recovery and Reinvestment Act.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "Committee Hearings". Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, complete all informational forms and click "submit" on the final page. **ATTACH** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **Thursday, May 7, 2009**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the World Wide Web at http://waysandmeans.house.gov.

Chairman MCDERMOTT. The Subcommittee will come to order.

There can be no doubt we're in the midst of an economic tsunami that has turned the lives of many Americans upside down. We've lost over 5 million jobs since the start of the recession 16 months ago, and further job losses are likely to come.

Responding to this crisis, Congress and President Obama worked together to pass an economic recovery act that cuts taxes and invests in America. One of the key investments was made in the most comprehensive package of assistance to the unemployed since the enactment of the New Deal in 1935.

We're here today to assess the implementation and the initial impact of these unemployment insurance provisions, which this Committee took a lead role in developing.

The Recovery Act not only provides the most far-reaching extension of unemployment benefits ever, but it also provides the first-ever Federal funding to temporarily increase the amount of the weekly UI benefit.

Additionally, the measures increase administrative funding for processing unemployment claims, cut taxes on UI recipients, and provide a 65 percent subsidy for dislocated workers maintaining their employer-based healthcare coverage through what is known as COBRA.

Finally, the Recovery Act provides a total of up to $7 billion in modernization grants for States that enact specific reforms designed to increase access to unemployment benefits for jobless workers.

We've seen many Governors—Democrats and Republicans alike—express a desire to draw down these funds. At the same time, we've also heard from a few Governors who say they don't want their State's share of these dollars because they say the reforms will pose a significant burden in the future.

This argument, in my view, is both callous and wrong. Turning down these funds amounts to turning your back on the innocent victims of the recession. It ignores the fact that modernization reforms are common-sense provisions to help workers who have lost their jobs in our present-day economy.

For example, one of the provisions simply requires that States count a worker's most recent wages when determining his or her eligibility for unemployment benefits. Is any Governor really willing to say such a step is unreasonable? It's just a matter of basic fairness.

Another reform says that if an individual becomes eligible for UI benefits based on part-time work, then he or she should be allowed to look for another part-time job. Again, this is the fair thing to do for workers who have effectively paid into the system and then become unemployed.

Many States have already enacted these reforms without a single dime of Federal money, and they have not found them to be a burden on their UI systems. However, if a State finds the reforms are unsustainable in the future, it can change them after the Federal money runs out, without any penalty.

Let me quote directly from guidance provided by the Department of Labor on this point:

> "If a State eventually decides to repeal or modify any of these provisions, it may do so, and it will not be required to return any incentive payments."

Rejecting the modernization funds is not only bad for unemployed workers, but it also might increase taxes on employers. Without this new infusion of Federal dollars, the solvency of many State unemployment trust funds will continue to decline, thereby triggering tax increases on employers.

Governor Sonny Perdue of Georgia acknowledged this fact when he signed his State's UI modernization on Tuesday. He said this measure "will help prevent tax increases on Georgia businesses so that they can grow and create jobs."

Another provision in the Recovery Act that I urge every State to take advantage of is specifically focused on long-term unemployed workers. The legislation provides temporary 100 percent funding for the permanent-law extension benefits, or EB program.

In high unemployment States, the EB program—that's the extended benefits program—provides additional weeks of benefits to workers exhausting their emergency unemployment compensation. This program has been enacted in only 26 States, but 14 more States could offer extended unemployment benefits under EB if they simply enacted an optional trigger, that is, 6.5 percent total unemployment.

One last point directly relevant to all the UI provisions in the Recovery Act is that unemployment insurance is an essential form of economic stimulus. Helping jobless workers maintain at least some of their prior consumption of goods and services generates revenue for business and saves jobs. It is therefore no surprise that we continually hear from economists, including those at the Congressional Budget Office, that unemployment benefits provide one of the biggest economic bangs for the buck.

Finally, let me say that even with all that we've done on unemployment insurance, we may need to do more. As President Obama has said, we are beginning to see a few hopeful signs, but we don't know yet when a full recovery will come.

Chairman MCDERMOTT. I will yield to Mr. Boustany to make opening remarks, and when Mr. Linder comes, if he has remarks, we will listen to them.

Mr. BOUSTANY. Thank you, Mr. Chairman.

I was going to request that Mr. Linder be allowed to deliver his opening statement upon his arrival.

Chairman MCDERMOTT. Without objection.

Mr. BOUSTANY. Thank you. I just simply want to say that, first of all, thank you for holding the hearing. I think it's very important to have this initial discussion about how this program is working in its early stages.

There are, however, a number of unresolved questions. Clearly, some of the Governors around the country have raised legitimate concerns about the increased burden in the form of taxes on employers and will this, in fact, create a vicious cycle that could further feed unemployment.

That's not to belittle the importance of this program, but we want to make sure that we look thoroughly and get all of our questions answered about how this program is going to work, and what also will be the impact on unemployment and, as a result of possible tax increases, on the employer.

With that, I will yield back. Thank you.

Chairman MCDERMOTT. Thank you.

Ray Uhalde is the senior advisor to the Secretary. I think you worked in the Department of Labor before, and you've returned to your duty station, or another similar duty station, to implement this legislation.

So, we welcome your testimony, and your full statement will be put in the record. We'd like to ask you to limit it to 5 minutes, if you can, please.

STATEMENT OF RAYMOND J. UHALDE, SENIOR ADVISOR, OFFICE OF THE SECRETARY, U.S. DEPARTMENT OF LABOR

Mr. UHALDE. Thank you, Mr. Chairman.

Yes. Like the National Guard, I've been called to active duty, and I'm proud to serve.

Good morning to you, Mr. Chairman and Members of the Subcommittee. Thank you for inviting me.

I'm pleased to have the opportunity to discuss the provisions related to unemployment insurance in the Recovery Act.

In addition to addressing the urgent needs brought on by the recession, the Recovery Act brings long-overdue recognition to the fact that since the 1930s, when the unemployment insurance program was created, the economy has changed, the workforce has changed, and the way we work has changed.

We'd like to thank you, Mr. McDermott, for your efforts leading to this legislation.

The Department of Labor promptly executed agreements with all the States, as needed, and issued implementing guidance within a few days of the Recovery Act becoming law.

States have worked very hard to implement the provisions of the Recovery Act as quickly as possible, and in turn, get the Recovery Act's money out to beneficiaries.

I'll briefly discuss implementation of these provisions.

The emergency unemployment compensation program was set to expire March 31st of this year. The Recovery Act extended the date for new EUC claims to December 31st of 2009, with payments on those claims ending on May 31, 2010.

All States are paying at least 20 weeks of EUC. Currently, 42 States meet the high unemployment criteria under which 33 weeks of EUC are payable. Through March, 3.7 million beneficiaries had been paid a total of $12.2 billion.

The Recovery Act created the new Federal additional compensation program that provides a 100 percent federally funded $25 add-on to all weekly UI payments. Jobless workers can enter the program until January 1, 2010, and can continue to receive benefits until June 30, 2010. All States signed agreements to pay FAC effective February 22nd of this year, the first week for which the $25 was payable.

Despite being a technical challenge for many States, 37 were able to begin payments of FAC on or before March 16th. As of today, all but two States have begun making FAC payments.

The Recovery Act made available $7 billion in incentive payments to States that have updated their UI programs to reflect the nature of the 21st century economy. These provisions treat part-time workers, low-wage workers, women, and recent entrants to the labor force more equitably, and recognize that many individuals must balance work and family.

These workers have been disadvantaged because they are ineligible for benefits, even though unemployment taxes have been paid on their earnings. These eligibility provisions are not novel or radical. In fact, many State laws contained qualifying provisions prior to the passage of the Recovery Act.

The UI modernization eligibility provisions should have a modest overall impact on benefit costs. Research shows that using more recent wages for recent entrants to the labor market increases benefit outlays by between 4 and 6 percent.

New Jersey was the first State to apply and receive its entire share of the incentive payment, $206.8 million.

Connecticut, Illinois, Massachusetts, New Hampshire, and South Dakota received a total of $200.3 million, the first one-third of their shares of the $7 billion incentive payments.

Minnesota's application is for its entire share, and applications from New York, Hawaii, and Virginia are for their first one-third shares, and they're currently under review within the department.

In their applications, all States have advised us that they plan to use the incentive money for the payment of benefits and strengthening their trust fund accounts.

Seventeen more States, existing UI laws meet requirements for one-third of their share of the incentive payments, and we are awaiting receipt of their applications.

Several States have enacted new legislation that should enable them to receive incentive payments. Other States have introduced bills in their State legislatures, and the department's unemployment insurance staff are providing virtually around-the-clock technical assistance to States to assure that these bills result in State laws qualified for incentive payments.

The department strongly encourages States to update their UI programs to qualify for the incentive payments, as it's beneficial both to the workers and the States. We've also provided, through the Recovery Act, $500 million special administrative distribution to the States, and deposited it in the State accounts.

The Recovery Act provides 100 percent Federal funding of most EB costs. This gives States an incentive to add the optional trigger, based on the State's three-month average total unemployment rate, which generally makes EB payable sooner.

Prior to the Recovery Act becoming law, 12 States had an optional TUR trigger in the law. Since the Recovery Act, California, D.C., Georgia, Michigan, Nevada, and Ohio amended their laws to provide this optional trigger.

The Recovery Act also permits States to expand EB eligibility to individuals who exhaust EUC while EB is payable in their State. This was needed, since workers who collect at least 52 weeks of regular benefits and EUC would not be eligible for EB otherwise.

The Recovery Act also provides relief to States that borrow from the Federal Government to keep paying State unemployment benefits, by suspending payment of interest on these loans through the end of 2010.

Currently, 14 States have borrowed a total of over $9 billion. We project the UI trust fund will need to borrow $16 billion from general revenue in fiscal year 2010 to cover loan payments.

Thank you for the opportunity to speak with you on these provisions, and I'll be glad to answer questions.

[The statement of Mr. Uhalde follows:]

Statement of Ray Uhalde, Senior Advisor to the Secretary, United States Department of Labor

Good morning. Chairman McDermott, Ranking Member Linder and distinguished Members of the Subcommittee, thank you for this opportunity to discuss the provisions related to Unemployment Insurance (UI) in the American Recovery and Reinvestment Act (Recovery Act).

The Recovery Act is without a doubt the single most significant piece of Federal UI legislation in over 30 years. As you are well aware, the total unemployment rate in the United States is 8.5 percent. Experts anticipate that it will rise. Indeed, if this recession follows historic patterns, unemployment will not peak until after the recession ends. The Recovery Act brings urgently needed wage replacement to workers who are unemployed because their jobs have vanished.

In addition to addressing the urgent needs brought on by the recession, the Recovery Act brings long overdue recognition to the fact that, since the 1930's, when the UI program was created, the economy has changed, the workforce has changed, and the way we work has changed. I would like to thank you, Mr. McDermott, for your efforts leading to this legislation.

BACKGROUND

I would like to begin by providing some background information relevant to the UI program. Enacted in the Social Security Act nearly 75 years ago as a Federal-State partnership, UI is the primary source of temporary, partial wage replacement for the nation's laid-off workers who are seeking jobs. It helps put food on the table and helps pay the rent.

It is also the nation's leading *automatic* economic stabilizer during downturns, returning $2.15 to national output for every $1.00 spent on UI benefits. To emphasize its role as an automatic stabilizer, I note that in calendar year 2007—the recession began in December of 2007—the system paid $32.4 billion in regular benefits. Last year, the amount paid jumped to $43.0 billion. This year we are on track to pay $74.4 billion, including the permanent extended benefits program. These figures do *not* include Federal provisions enacted last year, or the provisions in the Recovery Act. Including those, we paid a total of $50.8 billion last year and project to pay $113.7 billion this year. As noted, the stimulative effect of these payments is over *twice* that amount. There are few stimulative tools that are as effective as the UI program during a downturn.

I would now like to turn to the Recovery Act. The Department of Labor (Department) promptly executed agreements with States, as needed, and issued implementing guidance within only a few days after the Recovery Act became law. States have worked very hard to implement the provisions of the Recovery Act as quickly as possible and, in turn, get the Recovery Act's money out to beneficiaries. I will briefly discuss implementation of the UI provisions.

EMERGENCY UNEMPLOYMENT COMPENSATION

The Emergency Unemployment Compensation (EUC) program, created in June 2008 and expanded in November 2008, provides up to 20 weeks of benefits to eligible jobless workers in all States and up to 13 additional weeks of benefits in States with high unemployment. It was set to expire on March 31, 2009. The Recovery Act extended the date for new EUC claims to December 31, 2009, with payments on those claims ending on May 31, 2010.

All States (including the District of Columbia, Puerto Rico, and the Virgin Islands) are paying EUC. Currently, 42 States meet the high unemployment criteria, under which 33 weeks of EUC are payable to eligible jobless workers. Through March, 3.7 million beneficiaries had been paid a total of $12.2 billion.

FEDERAL ADDITIONAL COMPENSATION

The Recovery Act created a new Federal Additional Compensation (FAC) program, which provides a 100 percent federally-funded $25 add-on to all weekly UI payments. Jobless workers can enter the FAC program until January 1, 2010, and can continue to receive benefits until June 30, 2010. All States signed agreements to pay FAC effective February 22, 2009—the first week for which FAC was payable.

Despite being a technical challenge for States, thirty-seven were able to begin payments of FAC on or before March 16, 2009. As of today, all but 2 States have begun making FAC payments.

UI MODERNIZATION INCENTIVE PAYMENTS

The Recovery Act made available $7 billion for States that have updated their UI programs to reflect the nature of the 21st century economy. These provisions are not novel or radical. In fact, many State laws contained qualifying provisions prior to the passage of the Recovery Act. These provisions treat part-time workers and recent entrants to the labor force more equitably and recognize that many individuals must balance work and family. Recent entrants in particular have been disadvantaged because, for administrative reasons, their earnings in the most recent calendar quarter are not used to determine their eligibility, even though unemployment taxes have been paid on these earnings. Individuals with a substantial history of part-time work are also disadvantaged because in many States they are denied benefits when they seek the same part-time hours they have always worked. Again, this denial occurs even though taxes have been paid on their wages.

The UI Modernization eligibility provisions should have a modest overall impact on benefit costs. Research shows that using more recent wages increases benefit outlays by 4 to 6 percent. Actual costs will vary from State to State since labor markets vary. Also, some States may need to add entirely new provisions while other States needed only relatively minor changes. Of States obtaining enactments this year, we note that South Dakota estimated that using more recent wages would add only $700,000 per year. Arkansas estimated that adding the necessary provisions to qualify for its full share of UI Modernization payments would cost $5.75 million per year. Similarly, Iowa estimated that adding such provisions would cost $20.2 million per year. Minnesota, which had already had some provisions that were similar to the modernization provisions, estimated that upgrading its law to qualifying for incentive payments would cost only $1.5 million per year.

The incentive payments are available to States that have expanded eligibility for UI benefits in specific ways. States receive one-third of their share when they use recent wages when determining UI eligibility. Research shows this "base period" provision is critical for low wage workers and individuals who are recent entrants to the labor market.

States receive the remaining two-thirds of their share when they also provide for two of the following four eligibility provisions.

- Pay UI to individuals seeking only part-time work.
- Ease qualifying requirements for workers who quit because of certain family responsibilities. These relate to workers who leave work to escape domestic violence, to care for an ill family member, or who quit to follow a spouse who moves to a new job.
- Extend benefits to workers in training who exhaust regular UI.
- Add dependents' allowances to weekly benefits.

These provisions are particularly important to women, who often require flexible work arrangements as they balance their families' needs with their professional responsibilities. Incentive payments may be used for unemployment benefits or to improve States' ability to get benefits out to eligible workers quickly and to help them find a good job. The training benefit will assist in creating a skilled workforce, which will benefit employers who need these workers.

New Jersey was the first State to apply and receive its entire share of the incentive payment—$206.8 million. Connecticut, Illinois, Massachusetts, New Hampshire, and South Dakota's applications for the first ⅓ of their share of the incentive payment have been approved, and these States have received a total of $200.3 million. Minnesota's application for its entire share, and applications from New York, Hawaii and Virginia for their first ⅓ shares, are currently under review by the Department. Sixteen more States use recent wages when determining UI eligibility, and we are awaiting receipt of their applications. In their applications, all States have advised us that they plan on using the incentive money for the payment of benefits and strengthening their trust fund accounts.

Several States have enacted new legislation that would enable them to receive incentive payments. I note that one of the approved States—South Dakota—added the base period provision. Minnesota enacted several UI Modernization provisions this year prior to submitting its application. Other States have introduced bills in their State legislatures, and the Department's staff is providing technical assistance to assure that these bills result in State laws that qualify for incentive payments.

The Department is pleased that so many States recognize that UI modernization isn't a partisan issue—it's an issue of fairness, and it makes the UI program more responsive to the modern workforce. The Department encourages States to update their UI programs to qualify for incentive payments as it is beneficial to both workers and States' economic recovery.

The Recovery Act also provided a $500 million special administrative distribution. Each State's share was deposited in the State's account in the Unemployment Trust Fund on February 27, 2009, where it is available for implementing the State's incentive provisions, improving outreach to individuals potentially eligible under the State's UI Modernization provisions, improving UI tax and benefit operations, and the provision of staff-assisted reemployment services. Most State laws require appropriation of these funds by the State legislature. At this stage, it is too early to report on State use of this money.

EXTENDED BENEFITS

The Extended Benefits (EB) program is a permanent Federal-State program that provides up to 13 additional weeks of unemployment benefits to eligible jobless workers in States with high and rising unemployment. At State option, workers in States with very high total unemployment rates (TUR) are eligible for an additional 7 weeks for a total of 20 weeks of EB. Costs of EB are generally split equally between the Federal Government and the States.

The Recovery Act provides for 100 percent Federal funding of EB (where EB is federally reimbursed) for weeks of unemployment beginning before January 1, 2010. This gives States an incentive to add the optional "trigger" based on the State's three-month average TUR. It is easier for many States to trigger on using the TUR.

Prior to the Recovery Act becoming law, 12 States already had this optional TUR trigger in their laws. Twenty-six States are currently triggered "on," either using this trigger or a mandatory trigger based on the insured unemployment rate. Since the Recovery Act became law, California, the District of Columbia, Georgia, Michigan, Nevada and Ohio have amended their laws to provide for this optional "trigger" for the period during which 100 percent Federal funding is available. Fourteen additional States could be triggered "on" if they added the TUR trigger.

The Recovery Act affected EB eligibility in another way. Generally, an individual must establish eligibility for EB within 52 weeks of first filing a claim for regular State benefits. Given that some workers can collect up to 26 weeks of State benefits and 33 weeks of EUC, some workers would not be eligible for EB since 59 weeks have passed. The Recovery Act permits States to expand EB eligibility to individuals who exhaust EUC while EB is payable in their State for weeks of unemployment beginning before January 1, 2010 with phase out for beneficiaries in payment status ending on June 1, 2010. Of the States currently triggered on EB, almost all have indicated that they are taking advantage of this expansion.

As you may know, due to longstanding concerns about the responsiveness of the EB program, the Administration will set forth a proposal to reform the program. As part of this effort, we will certainly review the program's triggers. Among the other EB issues we would like to address are work search provisions that are difficult to administer since they differ from regular State work search requirements. They are also paper-intensive since the requirements were designed in a time when State systems were not highly automated. States have told us they would like to see these requirements modified to reflect the way they currently implement their State law work search requirements. While we have tried to provide the States with flexibility, this has been difficult because the Federal EB requirements are very specific. We look forward to working with the Subcommittee to address this and other issues related to the EB program.

ADVANCES TO STATES

The Recovery Act also provides relief to States that need to borrow from the Federal Government to keep paying State unemployment benefits. It does so by suspending the provisions that require States to pay interest on these loans through the end of 2010.

Currently, 14 States have borrowed a total of over $9 billion. Due to the increase in benefit payments, we project increased borrowing with the result that the Unemployment Trust Fund will need to borrow $16 billion from General Revenues in FY 2010 to cover these loans to States.

CONCLUSION

Thank you for the opportunity to talk to you about the UI provisions in the Recovery Act. I will be glad to respond to any questions you may have.

Chairman MCDERMOTT. Thank you for your testimony.

We reserved some time for Mr. Linder to make his opening statement, so I will turn the microphone over to him, now.

Mr. LINDER. Thank you, Mr. Chairman. I apologize for my tardiness.

Today's hearing offers a valuable chance to review the effects of the recent so-called stimulus package on workers, and especially the unemployed.

Instead of discussing how many unemployed Americans have gotten a job—because that didn't happen in the wake of last year's stimulus bill, much less this year's—we will be talking today, I expect, about how many more and bigger unemployment checks are being paid.

As a result of the most recent stimulus legislation, unemployment benefit checks can stretch for more than 18 months in 11 States, 17 months in 26 States, and 14 months in 42 States. Workers can collect twice as many unemployment checks paid for by Federal revenues than are supported by their own employer's payroll taxes.

This is just the beginning. As unemployment rates keep rising, more and more States will pay workers a year-and-a-half of benefits. For someone laid off this month, that's through October 2010, but the temporary extended benefit program, already extended and expanded twice, is now scheduled to pay its last benefits in May 2010.

Even under the Administration's overly optimistic assumptions, the average unemployment rate in 2010 will be 7.9 percent. CBO says 9 percent. Raise your hand if you think the extended benefit program will expire at those levels.

The simple truth is, we will see more extensions of unemployment benefits, perhaps through the balance of this Administration, costing upward of $100 billion or more. That would be on top of $300 billion in regular unemployment benefits over that same period. Now, that's real money, to quote the President.

None of this is necessarily connected with helping long-term unemployed individuals get a job. On the contrary, numerous studies confirm that longer unemployment benefits lead to slower returns to work.

One expert stated flatly: "Each unemployed person has a reservation wage, that is the minimum wage he or she insists on before accepting a job. Unemployment insurance and other social assistance programs increase that reservation wage, causing an unemployed person to remain unemployed longer."

The author of that comment? The director of President Obama's National Economic Council, Larry Summers.

As informercials say, "Wait, there's more."

The stimulus bill nationalized the previously Federal-State extended benefits program, encouraging all States to claim "free" Federal funds for paying longer benefits.

It now pays a Federal bonus of $25 a week to each unemployed recipient. Perhaps most famously, it offers States temporary Federal funds if they permanently expand benefits, including to part-time workers and job quitters. All without precedent, all promoting higher taxes, and all making States increasingly dependent upon Washington.

The irony is, Americans want jobs and paychecks, not layoffs and unemployment checks, and for good reason. Unemployment checks can never replace earnings from work, and these benefits certainly are not free. It takes taxes to pay them, and those taxes are already poised to rise in the depths of this recession, with far more to come. All of which will do harm to job creation, as we will hear from the only employer and unemployment taxpayer testifying today, Michael Mitternight of Metairie, Louisiana.

So, while we hear about the thousands of additional unemployment benefit recipients collecting benefits as a result of this trillion-dollar bill, we need to ask a few simple questions.

Where are the 500,000 jobs Speaker Pelosi promised would be created by last year's stimulus, or the 1.7 million jobs the Economic Policy Institute, one of our witnesses today, said would be created then?

The reality is, they weren't created, and 5 million real jobs have been destroyed since those predictions.

Further, where will the 3.5 million jobs come from that have been promised by this year's stimulus plan? We all would like to know, especially since the point of this legislation, as the Speaker noted, was "jobs, jobs, jobs." Yet in the past 2 months, we've seen 1.3 million more job losses. Even in this town, that gap between promises and achievements is stunning.

Thank you, Mr. Chairman.

Chairman MCDERMOTT. Thank you.

Mr. Uhalde, why haven't all States taken advantage of this particular legislation? What's your explanation for them, if you can categorize them?

My staff wanted to have this hearing a little while ago, and I said, "No, no, it takes State legislatures a while to get their act together." So, we're having it now, but I'd like to hear your analysis of why people have not.

Mr. UHALDE. Mr. Chairman, first of all, I think your staff were reflecting the fact that State legislatures have to enact legislation.

While many of the States do have some of the provisions of unemployment insurance modernization, they've had to engage in legislation to fix or tweak their legislation to make sure it qualifies.

We expect probably 30 or more States will ultimately submit applications and qualifying legislation for the one-third, which will be the alternative base period. We already have 27 States. We think it will be more than 30 for that provision.

Some States have an alternative base period. They're waiting until they're able to get the legislation for qualifying for the other two-thirds, and they'll bundle them together into a submission to the department.

So, there's enormous activity in all the States. We're hearing that as States are inquiring of our staff of qualifying legislation, and we're reviewing that legislation so that we can advise them as they move through that legislative process.

Chairman MCDERMOTT. There were some States initially who said they didn't want it. Have any of them stayed in that position?

Mr. UHALDE. Well, there have been some Governors that have stated that they didn't want the incentive payments. The issue is that sometimes when they've taken a closer look at it, that their States have moved through their State legislatures to actually enact, and I think you'll be hearing from a witness today from the State of Georgia with regard to that.

I think we've had some questions from Governors and from States for clarification. There was some concern expressed to me personally and to the department that passing permanent legislation would bind one State legislature to a subsequent legislature, but we put clarifying information out that States are free, once this is enacted and implemented, if States choose at a subsequent time to repeal that legislation, they can, and there will be no clawback of any of the incentive payments. So, I think that has alleviated some of the concerns.

Then the analyses that States have been doing with regard to the potential costs of some of these provisions are ending up suggesting that they indeed can not only pay for these through the incentive payments, but for a substantial number of years.

Chairman MCDERMOTT. Mr. Linder suggests that the problem of extended benefits is that people then won't seek work, they'll just sit and wait for their unemployment check.

What's the situation out there right now, in terms of applicants for every job opening? I ask that, because the Seattle paper had this story last week about a meter reader for one of the utility companies, for which they had 1,400 applications, and the guy who got it was talking about how lucky he was; he won the lottery.

So, I'm wondering, do you have any data about what there is out there in terms of number of applicants per job opening?

Mr. UHALDE. No, I don't. There are vacancy data that are available from BLS. I don't currently have those data. I know from the other side of our operation, the Workforce Investment Act that operates the One-Stop Career Centers, that they are flooded with applicants coming in, seeking jobs, working the computers, looking for help in that regard.

I agree with Mr. Linder that the people would rather work than draw unemployment insurance, and I think that, while this discussion about whether or not there are disincentive effects with regard to unemployment benefits, in reality, in this time, we're facing such a dearth of jobs and job vacancies that the least of our worries is whether we're disincenting people. The issue is jobs, and people are actively seeking those jobs.

Chairman MCDERMOTT. Thank you. Mr. Linder will inquire.

Mr. LINDER. Thank you, Mr. Chairman.

Mr. Uhalde, you have suggested that we will deplete our funds for this sometime during the next year, and will be borrowing $16 billion from general revenues in 2010?

Mr. UHALDE. Several States currently have borrowed about $9 billion, and our estimate is that those and other States may borrow up to $28 billion for the fiscal year 2010.

Mr. LINDER. Total?

Mr. UHALDE. Yes, I believe so.

Mr. LINDER. For the year. How about the following year; do you have any estimates on that?

Mr. UHALDE. I don't have with me, but I'd be glad to provide that——

Mr. LINDER. Could you do that?

Mr. UHALDE [continuing]. For the record. Yes, sir.

Mr. LINDER. On the recovery website, it says that DOL has received $4 billion in stimulus funds and paid out $1 million, less than 3⁄100 of 1 percent. In contrast, HHS has paid out 46 percent, and Agriculture 42 percent.

What accounts for DOL's difficulty in spending that money?

Mr. UHALDE. I'm sorry. Are we talking about unemployment insurance?

Mr. LINDER. The recovery.gov website, says that DOL got $4 billion in stimulus funds, and has spent $1 million to date. Do you have any feel for those numbers?

Mr. UHALDE. The number that you're talking about is too small for unemployment benefits, so I suspect this is talking about job training moneys, Workforce Investment Act moneys.

Mr. LINDER. I'll submit that question to you in writing.

Mr. UHALDE. Thank you. Since we have put out to the States $3.5 billion of Workforce Investment Act money within 29 days of the passage of the legislation, and as of Monday, all States had put down to the local areas their sub-State allotments.

Mr. LINDER. You suggest that every dollar in unemployment benefits spending results in $2.15 in increased GDP.

Mr. UHALDE. That's correct.

Mr. LINDER. Mark Zandi, who has often been cited by this Administration, says the multiplier is 1.64. Heidi Shierholz of EPI notes Zandi's figure in her testimony on Page 7. CBO finds a range of between $2.20 and 80 cents.

How did you arrive at your multiplier?

Mr. UHALDE. It was an independent study that was done in the 1990s. I'd be glad to submit for the record that study.

These are multiplier effects. Obviously, if you get three economists in the room, you're going to get three estimates of that—you'll get five estimates for every three economists. That's a multiplier effect, as well.

Mr. LINDER. You just reminded me of one of my axioms, and that is, that if all the economists in the world were laid end to end, it would be a good idea.

[Laughter.]

Mr. UHALDE. I take no personal offense in that.

Mr. LINDER. Thank you.

Mr. UHALDE. Undoubtedly, there are important multiplier effects. People spend this money and they spend it in local communities, and they spend it on items of need, food and mortgages, and I know that from personal family experiences going on now. This is critically important, and it doesn't get saved, doesn't get put into IRAs. This is money that's spent.

Mr. LINDER. Thank you. Thank you, Mr. Chairman.

Chairman MCDERMOTT. Mr. Davis of Illinois will inquire.

Mr. DAVIS of Illinois. Thank you very much, Mr. Chairman.

Mr. Uhalde, could you refresh for me the purpose of unemployment insurance?

Mr. UHALDE. Well, Mr. Davis, unemployment insurance is intended to protect American workers against the risk of unemployment.

It was deemed, in the thirties, as an insurable risk, that workers who are laid off, through no fault of their own, and who are actively engaged in seeking work, be provided unemployment benefits while they searched for work. It is good for the economy, just for this discussion here, that we can increase spending that otherwise would not have happened.

Mr. DAVIS of Illinois. Could you share with me the rationale or criteria that is often used to determine benefit periods?

Mr. UHALDE. Typically, benefits are based on the amount of earnings within 1 year. A base period is generally looked at as the first four of the last five quarters, and we look at the earnings for those four quarters, whether an individual can qualify.

Mr. DAVIS of Illinois. Would you suggest or say that unemployment insurance has had some impact on individuals who are facing mortgage foreclosure?

Mr. UHALDE. Oh, absolutely. For millions of Americans who are out of work, and their families, but for unemployment insurance, they would be more likely to not be able to make both basic necessity payments, as well as their mortgage payments, as well.

So, unemployment insurance is a bedrock of being able to forestall mortgage deficiencies.

Mr. DAVIS of Illinois. So, one could suggest, with a fair degree of certainty, that was it not for the insurance, and not for the payments, that the foreclosure rates would be higher than what they currently are?

Mr. UHALDE. I have no data to support that, but it's just common sense, that if we were to take out of the economy the moneys that are spent through the unemployment insurance and the multiplier effects, we would have a much worse situation for mortgage foreclosures.

Mr. DAVIS of Illinois. In your experience, have you come across any data that suggests that the insurance actually serves as a deterrent for individuals seeking work, that if a person is getting unemployment, they are less likely to seek employment, because they're getting the insurance?

Mr. UHALDE. As we were having this exchange just a moment ago, there are numerous studies on both sides of this issue, with regard to the disincentive effects of unemployment insurance benefits, and mostly, disincentive effects tend to arise in making workers more careful and choosier about jobs that they select, so sometimes with the benefit of unemployment benefits, they can look for better matches and the ability to get jobs that might pay higher wages, that better suit their skills, and to that extent, it can tend to lead to a longer spell of unemployment.

The notion, however, that unemployment benefits cause people not to look for work is not really seriously in question.

Then lastly, with the serious downturn we have now, the 8.5 percent, and some suggesting it's going to go much higher, the issue is not deterring people from looking for work. The issue is work, availability of work.

Mr. DAVIS of Illinois. Thank you very much, and thank you, Mr. Chairman.

Chairman MCDERMOTT. Thank you.

Mr. Boustany will inquire.

Mr. BOUSTANY. Thank you, Mr. Chairman.

Mr. Uhalde, President Obama has said repeatedly, as has Secretary Geithner and Budget Director Orszag, that the stimulus bill will save or create 3.5 million jobs over the next 2 years.

So, I keep grappling with this. In the interest of transparency and accountability, can you tell us how we'll be able to tell if a job has actually been saved by this legislation? What are the metrics that the Department of Labor has to determine whether a job has been saved or jobs have been saved?

Mr. UHALDE. Well, that clearly goes beyond the unemployment insurance questions here.

For jobs that have been saved, in general, we know that, for example, a substantial amount of recovery payments went to States for Medicaid and education, and to the extent that layoffs have been prevented in school systems, for example, and in State Governments, those jobs have clearly been retained as opposed to being lost.

As to——

Mr. BOUSTANY. Do you have a database?

Mr. UHALDE. As to the metrics, I'd really have to defer to OMB, which is putting out substantial guidance, precisely on these questions of how to count job creation and job retention.

Mr. BOUSTANY. Does the Department of Labor have a database to track saved jobs?

Mr. UHALDE. No, we do not.

Mr. BOUSTANY. Do you intend to create a database to track this?

Mr. UHALDE. To track saved jobs?

Mr. BOUSTANY. Saved jobs.

Mr. UHALDE. For purposes of the direct recipients of our funding—for example, we put $500 million out to States for unemployment insurance administration—the Administration could have reporting on those jobs that were either retained or created as a result of that $500 million.

So, people hired in the unemployment insurance service, or retained, that would otherwise have been laid off, could be reported.

Mr. BOUSTANY. If the President and the budget director are going to continue to use that phrasing, "save or create," then I think, in the interest of accountability, we would like to see the Department of Labor come up with some way of tracking this.

Mr. UHALDE. As I said, we will be able to generate reports on the direct expenditures to States, and State recipients, and the recipients at the local level, but not any of the multiplier effects. We won't have a reporting system.

OMB will be developing, and has issued guidance, and will be glad to share it with you, on the methods to be used to count job creation.

Mr. BOUSTANY. Not jobs saved?

Mr. UHALDE. I don't know that.

Mr. BOUSTANY. Okay. I would hope that, if the Administration is going to continue to use this type of language, that between Department of Labor and OMB, we know what that means.

Mr. UHALDE. We'll get the guidance from OMB on how those things are going to be measured. I just don't have those.

Mr. BOUSTANY. Okay. As I traveled around the district last two weeks—I live down in Southwest Louisiana—we have a lot of oil and gas production, and a lot of jobs related to this industry, the refining industry. There's a great deal of concern right now about proposals in the budget for tax increases, energy tax increases, specifically.

This is an area of the country that actually has been doing fairly well, although we're starting to see unemployment creep up and I'm hearing about many more furloughs and some jobs that are being lost as a result of the prospect of increasing taxes in the energy sector.

So, again, if it's the Administration's proposal to save jobs, I have to question some of the policies that I think are going to actually exacerbate unemployment.

Mr. UHALDE. Okay. With regard to the unemployment insurance provisions, I would just point out that a substantial amount of the resources that are going to States, like the $7 billion UI modernization moneys, to the extent States receive those in the near term, short term, those are actually improving the trust fund balances in States, and in some cases, actually forestalling tax increases for unemployment insurance on employers in those States in the near term.

Mr. BOUSTANY. Sir, that's not my real question there, and again, I would hope that, between Department of Labor, Treasury, and OMB, that we can get some answers on this saved jobs issue, because I'm seeing jobs being lost now, even on the concerns of what's coming with future tax proposals, as a result of this budget.

Clearly, what we want to do is save jobs. So, I would hope that you could come forward with actual tracking for this and also bring it back to Treasury and OMB that we would like an analysis of how many jobs are going to be lost, as a result of these proposals, in the energy sector.

Mr. UHALDE. I will carry that message back——

Mr. BOUSTANY. Thank you, sir.

Mr. UHALDE [continuing]. To Treasury and OMB.

Mr. BOUSTANY. I yield back.

Chairman MCDERMOTT. Thank you very much, and Mr. Levin will inquire.

Mr. LEVIN. Thank you very much.

Welcome.

Mr. UHALDE. Thank you, Mr. Levin.

Mr. LEVIN. I'm not quite sure what to say, because if I might say to my colleagues on the minority side, I really don't know that, in view of the pressing conditions, it really makes much sense, in terms of the needs of unemployed people in this country, to go after Mr. Uhalde on this issue of saved jobs. It's part of a larger debate. I think it's unwise to politicize it.

Look——

Mr. BOUSTANY. Will my friend yield?

Mr. LEVIN. I'll be glad to yield.

Mr. BOUSTANY. This is a real concern among painters, welders, back in my district.

Mr. LEVIN. I know, and I represent them, but that isn't the purpose of this hearing.

The purpose of this hearing is to look at legislation that was passed and to see its impact, and if you want to, you can raise issues as to whether unemployment compensation induces people not to look for jobs. At least that would have some relevance to the purpose of this hearing, though I think, if I might say so, it's really misguided.

Mr. LINDER. Will the gentleman yield?

Mr. LEVIN. Okay.

Mr. LINDER. There are several studies that show that people start looking extra hard for work as their unemployment benefits run out, whether it's after 26 weeks or 52 weeks. I would like unanimous consent to submit those studies.

Mr. LEVIN. All right, and I'm glad you raised it, because we might as well talk about that.

Look, some of us have been on this Subcommittee for a long time, and we've tried for years to provide an adequate unemployment compensation structure, a long time.

I can remember going back to when Tom Downey chaired the Subcommittee, I can't remember how long ago—20 years ago? We never were able to accomplish it.

Now, with the leadership of Mr. McDermott and others, we were able, some months ago, to extend benefits and to begin the reform of the system.

There's a crisis in this country for unemployed people.

We're going to have testimony in a few minutes, and it just reminds us, last month, 45.6 percent of all workers collecting State unemployment insurance reached the end of their maximum 26 weeks of benefits. It's the highest exhaustion rate on record, and that goes back 35, 36 years.

So, that should be the atmosphere within which we have this hearing. We have historic exhaustion of benefits, people including painters and welders, in everybody's district, who are out of work, who are looking for work, and this Congress took the step to make sure that they weren't out in the cold.

With an exhaustion rate of historic proportions, we're saying to people that, you're unemployed because you don't want to be employed, anywhere in this country, with this jump in unemployment compensation.

We also should be considering the fact that the unemployment compensation system doesn't cover 50, 60, and sometimes more percentage of people who are employed, who are workers.

So, I just think that we need to look, if I might say so, at this almost unprecedented circumstance facing workers in this country, and States in this country.

The moneys in Michigan, in 1 week—I couldn't believe this figure—there were 800,000 phone calls, some of them were repeat phone calls, people who were out of a job, who were looking for some help—800,000.

Through action of this Congress, we provided some money to the State of Michigan and other States so that people would have their telephone calls answered. Yes, to make sure that employers weren't taxed more because of this high unemployment compensation rate. We helped prevent States like Michigan raising taxes on employers.

So, I think we should somewhat join together to understand the predicament facing workers in this country, and to understand what we passed, the benefits, and if you want to talk about the detriments, let's talk about any problems with the legislation that was passed, but not use this as an occasion to either revive this notion that the people of this country are lazy, getting unemployment comp, and therefore not going to work.

Chairman MCDERMOTT. Thank you.

Mr. LEVIN. For the vast majority of people, that just isn't true.

My time has expired. Mr. Chairman, I just wanted to try to help put in perspective, really, the response of this Congress under the leadership of yourself and others to respond to, really, this unprecedented problem facing the workers in this country, in every State.

Chairman MCDERMOTT. Thank you.

Mr. ROSKAM. Thank you, Mr. Chairman.

Since I'm the next minority Member speaking after the gentleman from Michigan, the Ranking Member doesn't need anybody to defend him, but, it's ironic that the President's economic advisor makes a statement like that, and it's sort of dismissed as kind of a non sequitur, when I think it's actually probative, and it's a question that has to be asked and answered. We can sort of dance around it, and I would never put words in the Ranking Member's mouth, but my eighth grade son might say something like, "I'm just saying." It is something that's a significant part of the debate. It's not meant to be accusatory. It's not meant to be condescending.

There is, I think what Mr. Summers is saying is, there is an economic reality to the time period within which benefits are made, and one of the responsibilities, it seems to me, of the Subcommittee, is to put that into the calculation.

So, that being said, let me just make a couple of points to the witness.

First, thanks for your time and for your courtesy in coming in today.

The President, during the stimulus debate, particularly as it related to jobs, came to Illinois, my home State and Mr. Davis's home State, and went down to Caterpillar. There was a big presentation, a great deal of hope, and a great deal of fanfare about Caterpillar being able to perform better once the stimulus package passed. The President was very hopeful about that, but the reality has set in, and it's underperformed.

I don't know if you saw this, but yesterday, in Bloomberg, Caterpillar announced 2,200 more layoffs in March. So, this sort of cascading effect is important.

I think Mr. Boustany's point is, look, the use of language matters. He's not trying to give you a hard time, but the use of language characterizing things as saved begins to sound a little bit cagey. That's not your choice of language, but it's a choice of language that the Administration has used that's kind of fuzzy. It's a little bit easy to throw out there, not unlike the presentation at Caterpillar, but then when the reality comes, and the next morning shows up, it's like, "Oh, that didn't happen."

So, I don't think he's trying to give anybody a hard time. He's trying to say, let's just get some concreteness around this, let's come to some unanimity around the use of the word, or else let's not use it. If it's not definable, then let's take it out of the press releases and let's move on, but let's come to a common understanding of what that word "saved" means.

Here's a question, kind of in the larger context. Could you reflect on the tax implications, particularly as it relates to employers around the country, and what your expectation is as the benefits reach their exhaustion level? Just comment a little bit about the replenishment of the fund and where we will be looking for revenues, either general revenues in the future, another source of revenue that maybe the Administration is contemplating, or going back to the business community. Can you give me some insight on your understanding of that?

Mr. UHALDE. Yes. As I said in my testimony, States have borrowed about $9 billion. Our estimates are about $10 billion in total this year. In response to a question, I said we'll supply for the record, if we have any estimates for the subsequent year.

States have access to borrowing, and to the extent that we are the reinsurer of the unemployment insurance system at the Federal level, we may have to back up those borrowings in subsequent time periods.

What's important is how fast we can get recovery, because it's actually in recovery that we're able to replenish not only Federal treasuries, but also State unemployment insurance trust funds.

Mr. ROSKAM. There's no question. I think we're all like-minded. We want to see recovery as soon as possible.

Mr. UHALDE. Absolutely.

Mr. ROSKAM. That makes a lot of problems go away.

I see that my time has expired, and I yield back. Thank you, Mr. Chairman.

Chairman MCDERMOTT. Thank you.

Mr. Davis from Alabama will inquire.

Mr. DAVIS of Alabama. Thank you, Mr. Chairman and Mr. Uhalde.

I have been in this city for 7 years, and it's always struck me as a bizarre place, because people say things here and do things here that frankly, outside Washington, wouldn't make sense. Give you two examples.

It's commonplace in Washington for people to say something and then one minute later, say something that's the exact opposite of the previous point. I'll give you one example.

At 10:20 this morning, I was taking my notes, one of my friends in the Committee on the other side of the aisle said that the problem with unemployment insurance benefits is that they last too long. If they go on for too long a period, that people get them longer than they need it.

At 10:22, the same friend and colleague said that unemployment is going to rage on at a very high level for the next 2 years. He lamented the fact that, in all likelihood, Democratic policies would not bring it down and talked about the fact that the unemployment rate is probably going to be substantially higher a year-and-a-half from now than it is today.

So, 10:20, unemployment benefits last too long and we're making them last even longer; 10:22, unemployment is going to go on for the next year-and-a-half at higher levels.

In most places outside Washington, D.C., those would seem to be two wildly contradictory points.

Another strange thing happens in Washington. People occasionally say things that have absolutely no factual foundation, but they do it with great passion and great vigor.

Example. Several times this morning I've heard some of my friends on the Republican side of the aisle say that, well, we're losing jobs because our taxes are going up.

So, while I understand, Mr. Uhalde, you're a labor specialist, you obviously read the papers and follow the news. Did I miss something? The tax year that just ended on December 31st, President Bush was President during that entire tax year; am I right?

Mr. UHALDE. That's correct.

Mr. DAVIS of Alabama. Do you recall reading about any increase in the personal or corporate income tax during calendar year 2008?

Mr. UHALDE. I do not.

Mr. DAVIS of Alabama. There was a stimulus bill that was passed a few months ago by the Democratic Congress. Do you recall any provisions of the stimulus bill that increased taxes on any individuals or corporations?

Mr. UHALDE. Well, while I have read the stimulus bill, I don't recall every item, but I don't recall, certainly in the press, any discussion of tax increases.

Mr. DAVIS of Alabama. In fact, to the contrary, were there not provisions of the stimulus bill that actually reduced tax obligations for a number of small businessowners, some of the carryback provisions, for example?

Mr. UHALDE. I'll defer to you. I don't know.

Mr. DAVIS of Alabama. Well, just to assert my own recollection, there was not a single line of the stimulus bill, that's been much scrutinized and greatly debated, that raised by one inch the marginal tax rate of any individual or corporation in this country.

There were a number of provisions that reduced the tax obligations, including a significant number of provisions that reduced tax obligations for the primary job creators in this country, small businesses.

We just passed a budget resolution.

Mr. BOUSTANY. Would the gentleman yield?

Mr. DAVIS of Alabama. No, because I'm making a point.

We just passed a budget resolution. The budget resolution addresses the calendar year that will expire on December 31, 2009. I voted for the budget resolution. A majority of Members in the House and Senate did.

There was not a single provision of that budget resolution that raised any individual or corporate tax one iota in calendar year 2009.

The budget resolution also contemplates calendar year 2010. There was not a single provision of the budget resolution that raised any individual or corporate rate one iota for calendar year 2010, yet I've heard it asserted several times this morning that we're losing jobs because we're raising taxes.

I would represent, having been here the last several years, that this Congress has not passed, and no President has signed, any single provision that has raised taxes for the last several years or the next two.

One final point. The chairman asked the question, why are States turning down this money? Since my State is one of the ones doing it, I'll throw out the very bad reason that the Governor of my State has offered.

His rationale is that we don't want to extend unemployment benefits because, right now, Alabama does not offer an extension of unemployment benefits, and we want businesses who come to our State to know that if you come to Alabama, you won't have to provide unemployment insurance for nearly as many people as if you go to other States.

Mr. Chairman, I would say that, first of all, I wasn't aware that Alabama was selling itself on the grounds that we protect fewer people than our neighbors.

If we are selling ourselves on that ground, that we protect fewer people and help fewer people than our neighbors, that we might, at least in my State, and I'm sure others contemplate a change in strategy, and maybe get in the business of selling these States and recruiting industry on the grounds that we educate people better and train workers better, than on the grounds we do less for our people than our neighbors do.

I'll yield back.

Mr. BOUSTANY. Mr. Chairman?

Mr. UHALDE. I was going to respond.

Chairman MCDERMOTT. Mr. Uhalde.

Mr. UHALDE. I was just going to say that the whole purpose of the program I'm representing—unemployment insurance—is to insure people. It's not to figure out ways not to insure people, insure people against the risk of unemployment.

We certainly don't want to be in a situation of a race to the bottom to try and figure out how we can cover or make eligible fewer people for unemployment insurance, and that's precisely why we're actively encouraging all States to take up unemployment insurance modernization, because it's only fair to have eligibility extended to those people who have worked, who have had taxes paid, unemployment insurance taxes paid on their earnings, and yet are not drawing benefits.

Mr. BOUSTANY. Mr. Chairman, I ask unanimous consent to put this document in the record. It's a listing of articles pertaining to 10 States that are going to see State unemployment payroll taxes rising.

Chairman MCDERMOTT. Without objection.

[The information follows:]

Recent Articles about State Unemployment Payroll Taxes Rising
April 23, 2009

Alabama: **Businesses to pay more for unemployment tax** **(4/3/2009):** "Alabama businesses will pay higher unemployment compensation taxes in 2010 despite the state receiving $275 million in federal stimulus funds."

Connecticut: **Unemployment Fund To Run Dry** **(4/6/2009):** "Connecticut's unemployment insurance fund will be insolvent by the end of this year, forcing the state to increase taxes on businesses and borrow hundreds of millions of dollars from the federal government to make up for the shortfall, state officials have confirmed."

Idaho: **Idaho's jobless fund is going broke** **(4/19/2009):** "Now the law and the recession are clobbering Idaho businesses, which saw unemployment-tax rates climb by 70 percent in 2009 to pay checks to the growing number of unemployed workers. Businesses could see another 100 percent increase in 2010 at a time when many already are struggling, labor officials say."

Indiana: **Employers will pay more taxes if Ind. fund not fixed** **(4/15/2009):** "A state official says Indiana employers will face a higher federal tax rate next year if the state hasn't repaid loans it needs to keep paying unemployment insurance claims."

New Hampshire: **State House Dome: Unemployment insurance tax on the rise again** **(4/19/2009):** "Employers, get ready for more bad news. Unemployment insurance taxes are going up again."

Tennessee: **Proposal for higher unemployment taxes divides Tenn. House** **(4/22/2009):** "A bill advancing in the Senate is meant to stave off bankruptcy for the fund by increasing the amount of an employee's wages subject to the unemployment tax from $7,000 to $9,000 and raise the tax rate by 0.6 percentage points."

Texas: **Business Leaders Say State Unemployment Tax Hike Will Hurt Texas** **(4/12/2009):** "State officials have proposed hiking the rate for business owners to raise money for a state unemployment fund that the Texas Workforce Commission projects will sink more than $833 million below statutory levels by Oct. 1."

Vermont: **Legislators struggle to find balance** **(4/16/2009):** "Businesses can brace for an increase in the unemployment tax. An increase there is a given, and it is likely to be substantial. Warren Kitzmiller, chairman of the commerce and economic development committee, said simply that the unemployment trust fund will run out of money before the end of the year."

Virginia: **State's jobless fund expected to run dry** **(4/12/2009):** "Even if the state had voted to accept an additional $125.5 million in federal money to expand those eligible for unemployment benefits, the fund would still need bolstering….'Regardless of what happens with stimulus, employer taxes are going to go up dramatically,' Lillywhite (a research analyst with the Virginia Employment Commission) said. The average unemployment tax for this year is $95 per employee, and it could jump to $201 per employee by 2011, Lillywhite said."

West Virginia: **Unemployment Tax Reaction** **(4/14/2009):** "A tax intended to keep West Virginia's unemployment compensation fund from going broke got the thumbs up from State Lawmakers on the last day of the legislature. But not everyone is happy about it."

Mr. BOUSTANY. Thank you.

Chairman MCDERMOTT. Mr. Lewis of Georgia will inquire.

Mr. LEWIS. Thank you very much, Mr. Chairman, for holding this hearing. It is very much needed, and I really appreciate you for holding this hearing.

Welcome.

Mr. UHALDE. Thank you, Mr. Lewis.

Mr. LEWIS. I noticed in your resume, just reading through your resume, you've been with the Department of Labor now for more than 25 years?

Mr. UHALDE. That's correct.

Mr. LEWIS. You've been in charge of many different programs?

Mr. UHALDE. Yes, sir.

Mr. LEWIS. Have you seen anything like this, anything, with so many people out of work, struggling for work, losing their jobs, trying to make ends meet, can't pay their mortgage, can't pay rent, just struggling?

Mr. UHALDE. No. I've been in Government service since 1977, took some break in 2002, and I've never seen an economy that has been devastated quite this badly, even the early 1980s, because this financial crisis and the mortgage crisis has just compounded this problem substantially.

Mr. LEWIS. With your long history of knowing something about the American workforce and being at the Department of Labor, do you think, for many working people, people out of work, people that are struggling, that the Recovery Act, the stimulus, is almost Godsent?

I know you don't want to get involved in theology or anything like that, but——

Mr. UHALDE. I am a praying man, but I won't get involved in theology.

I think the Recovery Act is a lifeline to the country, and certainly the provisions about the Department of Labor that we are administering go directly to the concerns of the American workforce and their families.

We talk about insuring people against unemployment. We talk about training people for new jobs. We talk about providing summer employment for disadvantaged young people who may never get a chance to work until they get to their twenties. We protect the safety and health of workers in the workplace—we think we've got the most important department that affects the American worker.

Mr. LEWIS. Could you help me maybe with the question that my colleague from my native State of Alabama was asking—I don't understand it, but help me—where there's such a great unmet need, why certain officials or certain individuals are saying, "We don't need it, we don't need help."

The people have been left out, they're left behind, they're just struggling. I have people in my own district that are well-educated, they go out, trying to get a job at McDonald's. They cannot find employment. So, they need help.

Can you help me understand that? What is the psychology of that?

Mr. UHALDE. Well, I think the basic argument for those individuals who don't want to take up these reforms to unemployment insurance is that, while workers may be benefited, at some point, unemployment insurance taxes will have to be increased to offset that.

Now, I think the Recovery Act has paid substantial amounts of incentive payments to those States, so that will be deferred for quite some time.

Secondly, actually, the receipt of the incentive moneys in States will actually either forestall some tax increases in the near term, and actually in some States will reduce unemployment insurance taxes because of the triggering effect.

Third, I think you have to look at the benefits. These are workers who, under very reasonable conditions, would be drawing unemployment insurance benefits. These are workers who worked during four quarters, but they just didn't happen to work the quarter that the administrative record system is looking at.

So, it's almost an administrative convenience on behalf of the States that they don't qualify for unemployment benefits, and if they looked, they would see they worked during four quarters and should be eligible for unemployment benefits.

So, those are the benefits.

Part-time workers are terribly important to many of the employers in retail sales, in hospitality, particularly, so they love part-time workers. Why should we deny them benefits in those States when they're laid off? They're just as important when they're laid off, looking to get their next retail service job, as they were when they were working for those employers.

So, I think that it's a matter of equity, and has to be balanced off against paying for the costs of extending those benefits to those workers.

Mr. LEWIS. Thank you. Thank you, Mr. Chairman.

Chairman MCDERMOTT. Thank you.

Mr. Meek of Florida will inquire.

Mr. MEEK. Thank you very much, Mr. Chairman, and I want to thank you for holding this hearing today.

Mr. Uhalde, I want to thank you for coming before the Committee.

Mr. Chairman, first, I want to enter into the record, by unanimous consent, a letter to the Governor of the State of Florida that relates to the modernization of the unemployment insurance program, that's in the stimulus bill.

Chairman MCDERMOTT. Without objection, so ordered.

[The information follows:]

COMMITTEE ON
WAYS AND MEANS

CONGRESSMAN KENDRICK B. MEEK

April 22, 2009

The Honorable Charlie Crist
Governor, State of Florida
The Capitol
400 S. Monroe Street
Tallahassee, FL 32399-0001

Dear Governor Crist:

I am writing to urge the Florida Legislature to enact legislation necessary to put Florida in compliance with the Unemployment Insurance modernization provision in the recently enacted American Recovery and Reinvestment Act (ARRA). As you know, this provision in the ARRA will provide approximately $444.3 million to Florida to use to increase access to UI benefits for jobless Floridians.

The ARRA provides up to $7 billion in modernization grants for States that already have or that enact legislation implementing specific reforms to increase access to UI benefits for jobless workers, such as counting a worker's most recent wages when determining his or her eligibility. Reforms of the sort found in SB 516/HB1333 or similar would qualify Florida for these grants, specifically geared to helping low-wage, women and part-time workers that are largely left out of the safety net.

Dozens of States are already compliant with various provisions of the legislation, demonstrating that these policies are practical and effective. To date, despite Florida's now 9.4 percent unemployment rate, Florida is not compliant. Therefore, I strongly urge you to enact legislation so that Florida will be able to receive all of the money available to it in 2009.

Please do not hesitate to call me if you have any questions.

Sincerely,

Kendrick B. Meek

KENDRICK B. MEEK
Member of Congress

CC: The Honorable Jeff Atwater, President, Florida State Senate
The Honorable Jeff Cretul, Speaker, Florida House of Representatives

Mr. MEEK. Thank you.

I've been here listening, and I think that it's very, very important that all of the Members understand that, in this recovery package, we have done a lot of good things on behalf of the American people. Mr. Uhalde, I want to ask you, how many States have so far passed legislative requirements to receive part of the $7 billion in modernization grants?

Mr. UHALDE. Well, we have 10 States that have actually sent applications in to the department, and we've announced a portion of those, and we're reviewing the others.

There are 27 States, I believe, that have alternative base periods, and we expect virtually all of those to be coming in at some point. They may want to pass some other provisions and package them with them before they apply.

So, we see a lot of activity out there amongst the States.

Mr. MEEK. A State has to have one of, I believe, four requirements, under the unemployment insurance modernization provisions that are in the Recovery Act; am I correct?

Mr. UHALDE. That's correct.

First, they have to have this alternative base period, so the workers who would qualify if their most recent earnings were looked at, and then they have to adopt two of those four other provisions, including part-time workers and a training extension.

Mr. MEEK. So, if someone is laid off and they get a part-time job and then they're laid off from that job, if they were to comply with unemployment insurance modernization provisions, they would be eligible for unemployment or training?

Mr. UHALDE. Well, under the UI modernization, if they worked part-time and they otherwise qualified on every other provision, when they were laid off, if they were looking for part-time work again, modernization would make them eligible, then, for unemployment insurance benefits while they continued to look for part-time work.

Mr. MEEK. One of the things I want to bring to the attention of the Committee is that unemployment in Florida is 9.4 percent, and in other parts of the State it's even higher.

I'm very concerned, because we have legislation that's before the legislature right now, with less than 10 days left to be eligible for some $440 million of the $7 billion authorization and appropriations that we put forth in the Recovery Act.

These are people that wake up to go to work every day. These are the folks that punch in and punch out, or sign in and sign out, and they have real life issues. These are not individuals sitting at home flipping through cable channels, saying the job situation looks sad.

These are parents, these are grandparents, and these are young people. I think it's important that we move with great aggression, not only in the State of Florida, but also in other parts of the country.

Going back to Florida, we have the highest unemployment in 33 years, so we do have people in that State that are applying for unemployment that have never done so before.

I want to ask you also, if they were to pass the necessary legislation to make them eligible for these dollars, for the $477 million grant money, will they have to keep those provisions in place forever, or just during the time of this economic slowdown?

Mr. UHALDE. No. We expect States to make a good-faith effort in the passage of this legislation and the implementation of their legislation to modernize their system, but there's nothing that binds the State beyond that period.

If a subsequent legislature decides that this is not benefiting workers enough, or that it's not benefiting them enough compared to the tax revenues and the burden on employers, then they can choose to repeal those provisions, and, importantly, the State would retain those incentive payments that were already given to them.

We believe that encouraging States to take these provisions up, States will, with experience, find that, overall, there's a net benefit to their States by covering these workers, making them eligible, that employers will not find the system burdensome, and that the State's economy will benefit over the long term.

Mr. MEEK. I just want to make sure that it's clear, because I almost, like many Members on this Committee, cannot understand. Maybe based on their personal principles, because they're not in a situation where they're working part-time or they may be dealing with real life issues of folks trying to figure out how they're going to make ends meet, and out there standing in the job line.

So, what you're telling me is that the unemployment insurance modernization provisions that are in the stimulus package, where States have not passed the legislation to be eligible for those dollars, that in the case of Florida, with $444 million at stake, that they can pass legislation, and if they find that that legislation is not helpful toward helping those individuals that would be captured in that modernization provision that's dealing with unemployment insurance, that they can, in future legislatures, remove it when the economy gets a little better, or what have you, or they see that it's no longer useful, and they can retain those dollars?

Mr. UHALDE. That's absolutely correct.

Mr. MEEK. Okay. Thank you. Thank you so very much.

Chairman MCDERMOTT. Thank you. The gentleman from Maryland, Mr. Van Hollen, will inquire.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

I thank our witness here today for his service.

Just a quick comment, and then a question.

I think this country has made the right decision in ensuring that hard-working people, who lose their jobs through no fault of their own in an economic downturn, have some support until they can get themselves back on their feet and find another job.

If we don't do that, it means people can't pay their mortgages, they can't put food on the plates of their families, and they can't go about their daily lives.

So, it's the right thing to do from the perspective of a society that tries to make sure that it takes care of those who are looking for work and can't find it in a down economy.

It's also economically the right thing to do, because if you're not paying your mortgage and your house goes into foreclosure, that means one more house in the neighborhood that's under water, and it has an impact on everybody else, all the neighbors.

It also means that those people aren't out there, able to spend any money in the economy, and as we all know, when you have a downward spiral of fewer consumers spending money, it means less people who can sell their goods and services, so you have the downward spiral.

So, I'm very proud of the fact that the Congress took this action. It was the right thing to do from a moral perspective, and it's the right thing to do from an economic perspective, and now we've just got to make sure it works.

My question is, given the fact that we're in this huge downturn, and so many millions of Americans are out of work—we have the greatest job loss in a very, very long time—have the States been able, just as a matter of administrative efficiency, to make sure that people are getting the support they need on a timely basis, or are there some States where they just haven't had the mechanisms in place to make sure that the support is provided in a timely manner?

Mr. UHALDE. Thank you for the question.

The rapid rise in unemployment insurance claimants has been pretty astounding. States have gone from paying about 2.5 million claimants to 9.9 million claimants, in a very short time period, and they've done that, I think, overall, in a remarkable fashion.

States have been able to handle that massive increase substantially, and be able to implement these reforms in a very quick manner.

We had States within a few weeks paying the additional $25. We put out guidance within 2 days from the Federal level. States have been moving very promptly.

This is difficult. Many States have very antiquated computer systems-—they refer to them as "legacy" systems. Trying to fix those on the fly while you're meeting all the customers in front of you at the counter has been very challenging.

The $500 million that was provided for administrative costs has been most welcome by States, and a lot of information technology improvements and the like will be done.

I'm very proud of the unemployment insurance system and the State-Federal partnership, and how we've responded to it.

Mr. VAN HOLLEN. The administrative funds, have those been put to use, or has the timeframe just been too short?

In other words, have States been making use of those funds to upgrade and improve the delivery systems?

Mr. UHALDE. We don't have the reports yet. We made them available, virtually instantaneously put it into the States' accounts, and they've been drawing against those.

We won't have a report for a while on how they're putting them to use. We do know they have sort of very near-term needs, because phone banks have been flooded, and some of those have to be upgraded, and more people and individuals.

So, some of that kind of near-term operational stuff to stay up with the demand has been important.

We will get a read from the States on how much infrastructure, looking forward, because we need to always be ready for the next recession, and we need to be able to get our administrative systems up to par.

Mr. VAN HOLLEN. Thank you. Thank you, Mr. Chairman.

Chairman MCDERMOTT. Thank you.

Mr. Boustany would like to ask a clarification question.

Mr. BOUSTANY. Yes, sir. Thank you, Mr. Chairman.

Just to follow up on Mr. Meek's question earlier, regarding the unemployment modernization provisions and how it applies to

States and their legislative action, I know that the Recovery Act provides for special transfer of up to $7 billion total.

The States will get their allocations as incentive payments, but the changes in the State law must be made permanent, and changed only by repeal by the respective State legislature.

What happens if the State changes the State law, signs the agreement with the Department of Labor, accepts the money, is still in session, and upon receipt of the money, immediately repeals the legislative change; how would that be treated?

There seems to be a little bit of confusion about permanent versus repeal by the legislature.

Mr. UHALDE. We're not confused. We didn't want to be played for fools.

Mr. BOUSTANY. I understand. I'm just trying to get a clarification.

Mr. UHALDE. We need to safeguard the taxpayers' money, as well, so we tried to be clear that permanent meant that, within the State legislation that's passed to implement the modernization features, there's nothing that would sunset that or trigger off, say by some change.

Mr. BOUSTANY. So, in other words, the State legislature, in the initial change in legislation, could not put in a sunset date?

Mr. UHALDE. That's correct, the State could not put a sunset date within the law, but there would be nothing to prevent the State coming back later and repealing it, but when we say good faith, we mean good faith and implement, so we presume that when the States pass the legislation, that the State is then going to implement and pay benefits, and not the next day after the check arrives, terminate the program.

So, we understand circumstances can change, a subsequent legislature could decide this is not a good deal for us, but—so permanent means nothing that would trigger it off or sunset it within the legislation, but then a subsequent legislature could repeal.

Mr. BOUSTANY. Just one quick followup.

Do you plan to promulgate regulations that will actually clarify whether that repeal language is within the duration of the program, the Federal program, the dates are already explicitly placed in the bill?

Mr. UHALDE. We've put a——

Mr. BOUSTANY. Will there be a timeframe to prevent gaming? Will you offer further clarification?

Mr. UHALDE. We did put out clarification and actually wrote letters in response to this precise question, we didn't put a time period on that clarification. I don't think we would.

The legislation can't have a repeal provision within it or a sunset, and we said that the State would certify when they applied to us that they make a good faith effort to implement the benefits.

Beyond that, we have no time period.

Mr. BOUSTANY. Thank you.

Mr. LINDER. Mr. Chairman?

Chairman MCDERMOTT. Yes, Mr. Linder.

Mr. LINDER. Mr. Uhalde said that the cost to the States of expanding benefits would be modest. I'd like to submit for the record a study published in 2006 by the National Bureau of Economic Research. They found that New Brunswick, Canada and Maine are quite similar across a number of social and economic dimensions, making them a region well-suited for comparison.

In the 1970s, New Brunswick expanded unemployment benefit eligibility to cover more marginally attached workers, as States are being encouraged to do today, and by 1991, New Brunswick's UI spending as a share of GDP was six times the share in Maine.

I'd like to ask unanimous consent to submit that.

Chairman MCDERMOTT. Without objection, so ordered.

[The information follows:]

FraserAlert

THE FRASER INSTITUTE

November 2006

Market solutions to public policy problems

Long-Term Effects of Generous Unemployment Insurance: Historical Study of New Brunswick and Maine, 1940–1990

ACKNOWLEDGEMENTS

This Alert is based on a more technical, academic paper entitled *The Long-Term Effects of a Generous Income Support Program: Unemployment Insurance in New Brunswick and Maine, 1940-1991* by Professors Peter Kuhn (U.C. Santa Barbara) and Chris Riddell (Queen's University). The study was published by the National Bureau of Economic Research (NBER) in January of 2006 and is available at *www.nber.org*.

ABOUT THE AUTHORS

Chris Riddell is an Assistant Professor at Queen's University's School of Policy Studies.

Peter Kuhn is a Professor of Economics at the University of California, Santa Barbara.

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Main Conclusions

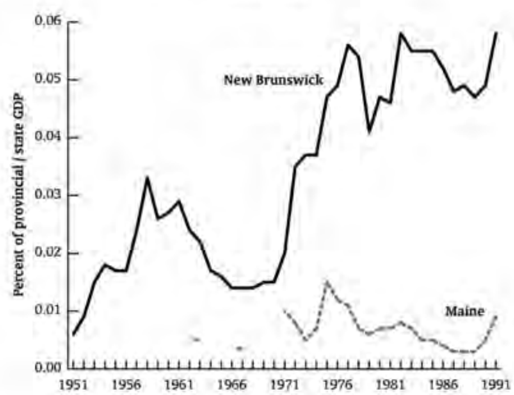
- **New Brunswick experienced a marked increase in the generosity of Unemployment Insurance (UI) beginning in the 1970s. This has had a dramatic impact on the use of UI and on the labour market, which stand in stark contrast to those in Maine.**
- **The two main changes to Canada's UI program that affected benefit levels were the introduction of seasonal benefits in the mid-1950s, and of a new system of eligibility and benefit calculations in 1971 that permitted generous benefits at low levels of weeks worked, especially in regions of high unemployment.**
- **Much greater percentages of workers (male and female between the ages of 25 and 59) in New Brunswick claimed UI benefits than in Maine: 29.5% of male workers and 29.7% of female workers in New Brunswick claimed UI benefits in 1990 compared to 5.7% of male workers and 3.3% of female workers in Maine.**
- **The level of unemployment in New Brunswick has been consistently above 12% since 1982, while Maine's unemployment rate has steadily been below 8%.**
- **Not surprisingly, UI spending as a share of the economy (GDP) is significantly greater in New Brunswick than in Maine. By 1991, New Brunswick's UI spending as a share of GDP was 6 times the share in Maine.**

Introduction

This Alert examines the long-term effects of benefit changes in Unemployment Insurance programs on the labour market. It specifically looks at changes in the generosity of UI benefits on unemployment rates and UI claims in New Brunswick and Maine, two relatively homogeneous jurisdictions, over a 50-year period from 1940 to 1990.[1]

New Brunswick and Maine are very similar regions. Both are located in the far eastern regions of the respective countries. The structure and nature of the regional economies are quite similar: both maintain a large resource sector.[2] Both jurisdictions have also experienced slower population growth than the national average for a prolonged period of time and both have average incomes below the national averages.[3]

Figure 1: UI Expenditures in Maine and New Brunswick, 1951-1991



Source: Kuhn and Riddell, 2006.

Unemployment Insurance in New Brunswick and Maine

Jurisdictional Differences

There is a key difference between the funding of Unemployment Insurance (UI) in New Brunswick and in Maine. Unemployment Insurance, which began in Canada in 1940,[4] is financed and administered by the federal government. In the United States, it is the states that operate and fund UI programs independent of one another. The UI program in Maine, which began in 1935, has been state-run and state-funded since its inception.

Eligibility Differences

There is also an important difference in how the two jurisdictions determine eligibility. Eligibility for Canada's UI benefits are determined by the number of weeks worked, independent of the amount of income earned. Eligibility for Maine's UI benefits and the weekly benefit amount is based on total earning during the year before a period of unemployment.

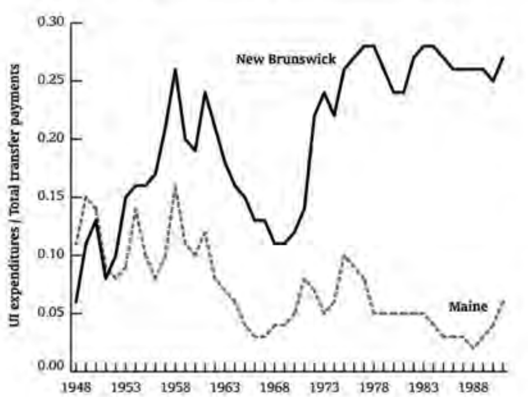
Two Major Policy Changes

Two changes to the policies governing Canada's UI resulted in large increases in the benefits available from the program.

When Canada's UI program started in 1940, eligibility depended on the number of days worked during the two years preceding a claim. In addition, significant limits were placed on benefit periods for seasonal workers. Between 1950 and 1960,[5] the UI program introduced a system of seasonal benefits that were payable exclusively during winter months but under broader conditions.

In 1971, the seasonal benefit program was eliminated.[6] The new system based weeks of benefit entitlement on the number of weeks worked in the previous year and provided very generous benefits for those who had worked only a few weeks, especially in high unemployment regions (including New Brunswick). In such regions, it was possible to qualify for 40 weeks of UI benefits with just 10 weeks of work. Further, workers could continue

Figure 2: UI Expenditures as a Fraction of Total Transfer Payments to Individuals, 1948-1991



Notes:
In New Brunswick, "Total transfer payments to individuals" consist of: family and youth allowances; veterans' allowances; unemployment insurance benefits; scholarships and research grants; old age security; pensions to government employees (federal and provincial); adult education and training payments; provincial transfers such as direct relief, workers compensations, disability-related payments and grants to post-secondary institutions; CPP/QPP and miscellaneous federal/provincial/municipal transfer payments.
For Maine, these payments consist of: all forms of retirement & disability insurance benefit payments; workers' compensation payments; medical payments; income maintenance benefit payments; all UI-related benefit payments; all veteran-related payments; federal education and training payments; and miscellaneous federal/state/local transfers payments. For consistency between the jurisdictions, we include federal UI payments to individuals in Maine, which includes (depending on the year), payments for federal civilian government employees (after they became covered), railroad employees, and "other" federal UI payments. These federal payments are a small fraction (about 10%) of state payments.

Source: Kuhn and Riddell, 2006.

such a pattern of part-year work year after year without penalty.[7]

In New Brunswick, these changes have had a dramatic impact on the use of UI and on unemployment rates, which stand in stark contrast to those in Maine.

Unemployment Insurance (UI) as a Share of the Economy

Figure 1 presents UI expenditures as a share of provincial/state GDP for New Brunswick and Maine from 1951 to 1991. During the 1960s, UI expenditures as a share of provincial/state GDP for New Brunswick were roughly three times than of Maine. By the 1990s, UI spending as a share of GDP in New Brunswick (roughly 6%) was approximately six times the share in Maine.

A similar result occurs if UI is analyzed relative to other income-support programs. UI played a much more important role in New Brunswick's income-transfer system than in Maine after 1952 (figure 2). By the end of 1991, UI constituted 27% of all transfer income received by individuals in New Brunswick compared to roughly 6% in Maine.

Receipt of UI Benefits

Table 1 contains information regarding government transfers in New Brunswick and Maine for 1990, the last year of analysis. The data included in Table 1 indicates that 29.5% of male workers[8] aged 25 to 59, and 29.7% of female workers aged 25 to 59 in New Brunswick received some UI benefits in 1990. This is striking when compared to Maine, which recorded 5.7% of male workers and 3.3% of female workers in the same age groups receiving UI benefits in 1990.

Similar results hold if the analysis is expanded to include all citizens. In 1990, 22.8% of men and 18.2% of women in New Brunswick received UI benefits. Maine experienced much lower levels of benefit receipt: 5.6% of men and 3.1% of women.

This striking difference in the percentage of UI recipients in both jurisdictions could be caused by the system of eligibility and benefits that New Brunswick has, which

Table 1: Percentage Receiving Unemployment Insurance in Maine and New Brunswick, 1990

	Workers* only		All Persons	
	Men	Women	Men	Women
New Brunswick	29.5%	29.7%	22.8%	18.2%
Maine	5.7%	3.3%	5.6%	3.1%

*"Workers" includes anyone aged 25 to 59 who worked for at least one week in 1990.
Sources: Kuhn and Riddell, 2006.

allows generous benefits for those who have worked only a few weeks.

Unemployment Rates

Figure 3 illustrates unemployment rates for New Brunswick and Maine between 1948 and 1991. The unemployment rate in New Brunswick rose substantially, both in absolute terms and compared to Maine, in the early 1950s. The gap created during this period was closed briefly just prior to 1972. After the policy changes adopted in 1971, unemployment rates in New Brunswick increased compared to Maine. But it was after 1976 that a large and permanent gap emerged. In fact, New Brunswick's unemployment rate was consistently above 12% after 1982 while Maine's unemployment rate was consistently below 8%.

Clearly, these trends suggest that increases in unemployment took place in response to the two major increases in New Brunswick's UI benefit generosity in the 1950s and 1970s.[9]

Conclusions

New Brunswick and Maine are quite similar across a number of social and economic dimensions, making them a region well suited for comparison. New Brunswick experienced a marked increase in the generosity of UI beginning in the 1970s and this has had a dramatic impact on the use of UI and the province's labour market. For example, the percentages of workers (male and female between the ages of 25 and 59) that claimed UI benefits in 1990 in New Brunswick was 29.5% of male workers and 29.7% of female compared to 5.7% of male workers and 3.3% of female workers in Maine. In addition, the level of unemployment in New Brunswick has been consistently above 12% since 1982, while Maine's unemployment rate has steadily been below 8%. Not surprisingly, UI spending as a share of the economy (GDP) is significantly greater in New Brunswick than in Maine. By 1991, New Brunswick's UI spending as a share of GDP was 6 times the share in Maine.

Notes

1 In terms of border comparisons, New Brunswick is of particular interest when studying income replacement programs for several reasons. First, its relatively low income level means that UI income replacement rates will be higher than the national average. That is, the benefits provided by UI will constitute a larger portion of average incomes in New Brunswick. Second, the province's small population and the federal nature of UI mean that the program's generosity would likely by unsustainable if it were financed by the province itself. Finally, New Brunswick and Maine share a history of seasonal employment that predates the introduction of UI. The seasonal nature of both economies is largely the result of the dominance of the resource sector within the economy.

2 Primarily agriculture and forestry (paper, lumber, and woods products).

3 Between 1950 and 1990, the populations in New Brunswick and Maine grew by 54% and 59%, respectively, while the national average in Canada was 90% and, in the United States, 135%. Similarly, between 1945 and 1991, personal income per capita in Maine was on average 20% below that of the United States, while New Brunswick was 27% below the Canadian average.

4 The 1940 Unemployment Insurance Act created the UI program but the collection of premiums began in July of 1941 (HRSD, 2004). The name of the program was changed to Employment Insurance (EI) in 1996.

5 On October 2, 1955, the 1940 Act was repealed and replaced with the revised and consolidated Unemployment Insurance Act, 1955.

6 Although Bill C-229 (The *1971 Unemployment Insurance Act*) was introduced early in 1971, the benefit provisions came into force on June 27, 1971. Existing benefit periods were allowed to continue but were gradually phased out over time. The new, universal coverage provisions came into force on January 2, 1972 (HRSD, 2004).

7 The 1971 Unemployment Insurance Act also made UI benefits taxable and extended the waiting period for benefits from one to two weeks.

8 Workers are defined as anyone who worked for at least one week in the calendar year.

9 The substantial differences between the number of UI recipients and the unemployment rates in the two jurisdictions could suggest that there is more propensity to work part of the year in New Brunswick than in Maine. A technical paper published by NBER further analyzes this issue. The paper not only addresses the effects of removing the 1971 UI reforms, but also examines what the effects would have been on the incidence of part-year work in New Brunswick if Maine's UI program had been introduced in that province.

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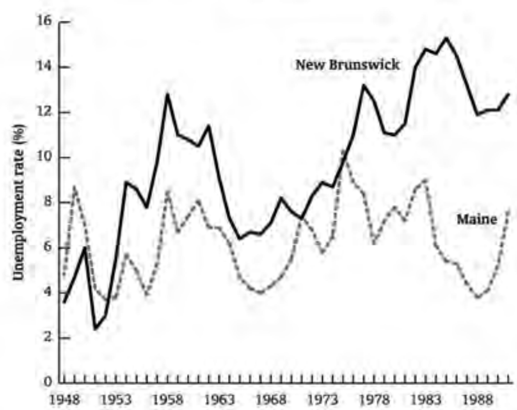
Kuhn, Peter, and Chris Riddell (2006). *The Long-Term Effects of a Generous Income Support Program: Unemployment Insurance in New Brunswick and Maine, 1940–1991*. NBER Working Paper No. 11932 (January). National Bureau of Economic Research.

Figure 3: Unemployment Trends in Maine and New Brunswick, 1948-1991



Source: Kuhn and Riddell, 2006.

About this publication

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Chairman MCDERMOTT. Thank you very much for your testimony, and we will perhaps see you again.

Mr. UHALDE. Mr. Chairman, thank you very much.

Chairman MCDERMOTT. Our next panel, if you'll take your places and turn your nameplates around so I can see who is who. You know who you are.

We will begin with Mr. Thurmond, and Mr. Lewis of Georgia will introduce him.

Mr. Lewis.

Mr. LEWIS. Thank you very much, Mr. Chairman.

Mr. Chairman, I am delighted and very pleased to present and introduce a hard-working public servant from the State of Georgia.

He's a lawyer by training. He's an author. He is a friend. I've known him so many years, when he just a teeny-bopper, really.

He was elected to a legislative district from Clarke County, where the University of Georgia is located, and he became the first African American to be elected from a predominantly white district in the State of Georgia.

Following his tenure in the legislature, Michael Thurmond was called upon to direct Georgia's historic transition from welfare to work.

He created the innovative workforce program, which has helped over 90,000 welfare-dependent Georgia families move into the workforce, saving more than $100 million in tax dollars that have been re-invested in child care, training, and other supportive service.

In 1998, he was elected Georgia's Labor Commissioner. He is completing, or serving, I should say, not completing, but serving his third term as labor commissioner.

The Labor Department in the State of Georgia has undergone significant transformation in customer service and efficiency. The Unemployment Office has been transformed into state-of-the-art career centers focused on getting jobless Georgians back to work as quickly as possible.

I want to thank Commissioner Thurmond for being here today. We look forward to your testimony.

Mr. LINDER. Mr. Chairman, if I may, Michael and I have been friends for over two decades. Welcome.

Chairman MCDERMOTT. Your full statement will be put in the record. We'd like to ask you to limit your time to 5 minutes.

Mr. Thurmond.

STATEMENT OF MICHAEL L. THURMOND, COMMISSIONER OF LABOR, GEORGIA DEPARTMENT OF LABOR, ATLANTA, GEORGIA

Mr. THURMOND. Thank you, Mr. Chairman.

To my mentor and friend, Congressman Lewis, thank you so much for the kind words of introduction, and thank you for your leadership and your inspiration.

To Ranking Member Linder, my former colleague in the Georgia House, it's good to be with you.

Members of the Subcommittee, I welcome this opportunity to testify, and I thank you for inviting me to share Georgia's experience with the implementation of the unemployment insurance modernization provisions and the American Recovery and Reinvestment Act of 2009.

Mr. Chairman, I would be remiss if I did not personally thank you for your longstanding commitment to improving and modernizing America's unemployment insurance program.

Your work, your dedication is well-known in Georgia, and I've come today to say thank you on behalf of those unemployed citizens who, but for this intervention, would be in truly difficult, difficult circumstances.

The State of Georgia has been hard hit by the ongoing recession. Our State unemployment rate is 9.2 percent, the highest rate ever recorded in the history of our State.

Some 442,000 Georgia citizens are officially unemployed. Thousands of others are discouraged workers not included in the official unemployment rate. Others are working part—time, but would prefer full-time employment.

The number of unemployed Georgians has increased by more than 64 percent over the past year. Of that number, 173,000, or 39 percent, are currently receiving State unemployment benefits, while another approximately 85,000 are receiving Federal emergency unemployment compensation.

Georgia's seasonally adjusted 9.2 percent unemployment rate remains, for the 17th consecutive month, above the national average.

As we grapple today with the most severe downturn since the Great Depression, I am reminded of the words written by President Franklin Roosevelt in a letter dated March 23, 1934, in the midst of that depression, and addressed to Congressman Robert Doughton, chairman of the House Ways and Means Committee.

The President wrote: "I have advocated unemployment insurance as an essential part of our program to build a more ample and secure life. The benefits of such a system will not be limited to the individual, however, but will extend throughout our social and financial fabric."

Some seven decades after its enactment, President Roosevelt's prediction that the benefits of a national UI system will be spread throughout our economy has been largely, though not completely, fulfilled.

The provisions of Section 2003 of the Act will, I believe, enhance the opportunities for States and jurisdictions to provide for a system of expanded UI coverage, fund rising administrative costs, reduce employer taxes, and help get workers back to work.

Since 1998, when I was first elected, the Georgia Department of Labor has worked to meet the needs of the unemployed by amending various provisions of our State unemployment insurance law.

We have obtained eight maximum weekly benefit increases, increasing the maximum benefit from $244 to $330 a week. We have raised the earnings disregard from $30 to $50 a week, which allows unemployed workers to work while they are receiving unemployment benefits. The UI modernization options included in this Act will allow us to further enhance our system.

Despite longstanding opposition in the legislature, in 2002, Georgia enacted a statute authorizing the alternative base period to determine monetary eligibility and calculate benefits for UI claimants.

This was an important piece of legislation because it allowed part-time workers, TANF recipients moving into the workplace, and low-wage workers to qualify for UI benefits if they become laid off.

You can see in the table in my remarks or my testimony, that we also began to track the actual cost of the ABP benefits program to our UI trust fund.

On Page 5—and by the way, that was one of the major concerns expressed in our General Assembly as to what would be the short-term and long-term costs—you can see that in 2008, 14,724 ABP claims were filed and the total benefits paid were $17 million and 900-plus thousand. In 2008, we paid out a total of $950 million.

Studies suggest that a significant portion of the benefit cost is actually cost neutral, because these individuals would have applied and received benefits at a later time.

The Federal Additional Compensation, which is the $25 increase, was implemented in Georgia immediately after Governor Perdue and I signed an agreement, and within 30 days, we began providing this benefit. In the most recent week, we had 136,000 regular UI claimants and some 87,000 Tier 1 and Tier 2 claimants to receive some $5.6 million in additional benefits to their unemployment compensation.

The key in Georgia to ultimately passing the Modernization Act was three things.

One, we had broad-based bipartisan support. I'm proud—and my time may be up.

In conclusion, I'm proud to state that the key to our success was, number one, bipartisan support. It was passed unanimously in the House and the Senate. On Tuesday, the Governor signed the legislation. We had specific cost projections as to what the part-time worker provision and the extended training provision would cost. We focused on getting Georgians back to work.

[The statement of Mr. Thurmond follows:]

Statement of Michael L. Thurmond, Commissioner, Georgia Department of Labor, Atlanta, Georgia

Mr. Chairman, I would be remiss if I did not personally thank you for your long-standing commitment to improving and modernizing America's unemployment insurance (UI) program. The State of Georgia has been hard hit by the ongoing recession. Our State unemployment rate is 9.2%, the highest ever recorded in Georgia and 442,758 citizens are officially unemployed, an increase of 64.1% over the past year. Of that number, 172,947, or 39.1%, are currently receiving State unemployment insurance benefits, while another 84,700 are receiving Federal Emergency Unemployment Compensation. Georgia's 9.2% seasonally adjusted unemployment rate remains above the national rate, presently 8.5%, for the 17th consecutive month.

As we grapple with the most severe economic downturn since the Great Depression, I am reminded of the words written by President Franklin D. Roosevelt in a letter dated March 23, 1934, addressed to Congressman Robert Doughton, chairman of the House Ways and Means Committee. The President wrote, "I have advocated unemployment insurance as an essential part of our program to build a more ample and secure life. The benefits of such a system will not be limited to the individual, however, but will extend throughout our social and financial fabric."

Some seven decades after its enactment, President Roosevelt's prediction that the "benefits" of a national UI system would be spread throughout our society have been largely, though not completely, fulfilled. The provisions in Section 2003 of the Act, Special Transfers for Unemployment Compensation Modernization, provide enhanced opportunities for States and other jurisdictions to help unemployed workers get back to work, expand UI coverage, fund rising administrative costs, and reduce employer taxes by protecting State trust fund solvency.

I am honored to share with the sub-Committee how Georgia has leveraged stimulus funding to modernize our State unemployment insurance program. We thank you for your unprecedented support of unemployed workers and in helping to stabilize the American economy.

STATE UI MODERNIZATION EFFORTS

Since my election in 1998, the Georgia Department of Labor has worked to meet the needs of the unemployed by amending various provisions of our State's unemployment insurance law. We obtained legislative approval for eight (8) maximum weekly benefit increases (from $244 to $330 per week), three (3) overall weekly benefit increases for all claimants, and increased the earnings disregard (from $30 to $50 per week). The UI modernization options included in Section 2003 of the Act will allow us to further enhance Georgia's unemployment insurance program. In addition to our ABP provision, we adopted the part time worker and demand occupation training options.

Alternate Base Period (ABP)

Despite long standing opposition in the Georgia legislature, in 2002 Georgia enacted a statute authorizing the use of an alternative base period (ABP) to determine the monetary eligibility and calculate benefit amounts for some UI claimants. The traditional base period had been exclusively defined as "the first 4 of the last 5 completed calendar quarters." ABP allows the Georgia Department of Labor to consider earnings generated during the last four completed calendar quarters prior to the date a claim is filed, if the claimant does not have sufficient wages in the regular base period.

Adoption of ABP was especially helpful to new entrants to the workforce, including

low wage and part-time workers because it increased the probability that these unemployed workers would meet monetary qualifications for unemployment benefits. Prior enactment of ABP pre-qualified the State for one-third of the Act's trust fund stimulus allotment.

The number of claimants and the amount of benefits paid after under Georgia's ABP is reflected in the following table:

Table I

Total ABP Claim Benefits Paid Annually		
Calendar Year	**Total ABP Claims Filed**	**Benefits Paid($)**
2003	10,141	$13,761,841
2004	11,565	$15,282,997
2005	10,768	$11,647,894
006	10,745	$11,281,048
2007	11,063	$12,565,132
2008	14,724	$17,936,305
1st quarter 2009	4,827	$5,016,627

Federal Additional Compensation (FAC)

The American Recovery and Reinvestment Act of 2009 included provisions for the Federal Additional Compensation (FAC) program. Claimants that are eligible to receive UI benefits, including regular UI, Emergency Unemployment Compensation (EUC), and Trade Readjustment Assistance (TRA), now receive the temporary FAC supplemental benefit of $25 per week. The first affected week ending date was February 28, 2009. Table II details the number of claims filed and the estimated amount of benefits paid under the FAC program.

Table II

Weekly: W/E 2/28/2009—W/E 4/18/2009			
Week Ending	**Regular UI Claimants**	**EUC Tier 1 & 2 Claimants**	**Total FAC Amount Paid**
2/28/09	134,357	90,473	$5,620,750
3/7/09	133,634	89,282	$5,572,900
3/14/09	132,906	90,058	$5,574,100
3/21/09	134,410	90,051	$5,611,525

Table II—Continued

Weekly: W/E 2/28/2009—W/E 4/18/2009			
Week Ending	**Regular UI Claimants**	**EUC Tier 1 & 2 Claimants**	**Total FAC Amount Paid**
3/28/09	137,292	87,911	$5,630,075
4/4/09	139,846	87,825	$5,691,775
4/11/09	135,494	87,141	$5,565,875
4/18/09	136,816	87,557	$5,609,325
Total to date	1,084,755	710,298	**$44,876,325**

Employer Tax Relief

The most underappreciated aspect of the UI Modernization Act is the tax relief afforded insured employers through stimulus investments that protect the solvency of State UI trust funds. Georgia's compliance with the provisions of the Act qualified the State for receipt of approximately $220 million that will be invested in our UI trust fund. Without the stimulus investment, Georgia's UI trust fund with a current balance of $467 million, plus an estimated 475 million in 2009 employer contributions would have been inadequate to meet our projected annual benefit costs. To produce an additional $220 million in employer contributions would have required a one year 45% tax increase on Georgia's 200,000 experience-rated employers. In light of rising benefit costs, a strong argument was made for pursuing the UI Modernization stimulus funding.

Part-Time Workers

Prior to the passage of the American Recovery and Reinvestment Act of 2009 there had been numerous unsuccessful attempts in Georgia to enact legislation that would allow qualified part-time workers who wanted to limit their work search to part-time employment to receive UI benefits. These proposals failed due to concerns raised by lawmakers and business community advocates who argued that the proposed eligibility expansion would result in significant additional costs to the UI trust fund and lead to increased tax burdens on employers.

Critical to the eventual success of our 2009 legislative effort was the political and fiscal leverage provided by the conditional availability of approximately $220 million stimulus dollars for Georgia's UI trust fund. Therefore, we decided to implement a sustained information campaign aimed at key stakeholders. We emphasized the fact that under existing Federal and State law, insured employers are required to pay UI tax premiums on part-time workers and that hundreds of laid-off part-time workers were currently receiving UI benefits, as long as they were available for full-time employment. If a monetarily eligible part-time claimant refused to be available for full-time work, however, they were determined not eligible.

However, the most important element of our Georgia strategy was the development and dissemination of a detailed fiscal analysis of the projected UI trust fund cost of the proposed part-time amendment. During 2008, 742,488 initial claims were filed in Georgia which included 792 claims that were based on wages from part-time employment. Two hundred and nine of these part-time claimants were denied benefits because they limited their job search availability to part-time work.

The additional cost of the proposed part-time "expansion" was surprisingly low. Based upon 2008 data, the total cost to pay benefits to laid-off part-time workers who are currently denied benefits was estimated to be $320,000.

Extended Training Benefits

The Demand Occupation Training (DOT) benefit in the UI Modernization Act calls for an additional 26 weeks of UI benefits for claimants who were employed in a declining industry, have exhausted regular State benefits, and are not receiving similar monies or stipends from other programs, such as Trade Act Assistance (TAA), Workforce Investment Act (WIA), and Georgia's HOPE grant program. They must be enrolled in State approved training for a high-demand occupation (e.g., nursing, automotive technician).

The proposal for establishing a DOT benefit had no history in Georgia. Although legislators and advocates agreed that providing displaced workers in declining occupations with training that prepares them for careers in demand occupations was a policy that should be encouraged, there was concern that the financial burden could be prohibitive. Again, projecting the cost of providing extended UI benefits to eligible claimants/trainees became a critical issue during the legislative deliberations.

We conducted a detailed cost analysis of the DOT benefit proposal. During 2008, 5,581 Georgia claimants, who had been separated from employment in a recognized declining industry, filed a claims for regular UI benefits. This represented 1.6% of the 357,954 claimants who received benefits during that same year. In 2008, forty-six percent or ------ of all UI recipients exhausted their regular State benefits and began receiving emergency unemployment compensation. Thus, we estimate that 2,567 claimants from declining industries "46% of 5,581 claimants" exhausted their regular UI benefits.

The average weekly benefit amount in Georgia during 2008 was $264; the average 26 week DOT benefit cost would be $6,864 per claimant/trainee. Prior experience with similar training programs suggests that from 10% to15% of qualified claimants will participate, though most will qualify for other programs, such TAA and Dislocated Worker activities. Under TAA, a participant has nine months to complete training, and in the WIA Adult and Dislocated Worker programs, participants have up to two years. Over 4,700 Georgia claimant/trainees are currently participating in WIA training programs and there are 8,630 claimants eligible for TAA training.

The department's analysis indicates that between 2.5% and 5.0% of UI recipients who worked in declining industries would qualify for the additional 26 weeks of DOT benefits. The total annual projected cost for the extended benefits proposal was between $440,000 to 880,000.

Technology Upgrades to UI Benefits Program

The special transfer for Administration funding provided in Section 2003 of the act is especially welcome and needed. We intend to make the following uses of these funds.

Overpayment Automation System (BARTS/AWARE/RECOVER) is software products that helps to prevent, detect and process both fraudulent and non-fraudulent unemployment insurance overpayments.

The advantage of obtaining this type of system is to improve unemployment insurance integrity.

Intelligent Fact-Finding Adjudication System—This is a web-based product that provides fact-finding prompts to claims examiners to ensure that they have asked all relevant questions relating to the issue(s) identified for adjudication.

The advantage of obtaining this type of system is to create uniform decisions through consistent fact finding.

Distant Learning On-Line Training System—This system will allow the UI Division to create customize web-based self taught training modules for staff use.

The advantage of obtaining this type of system is managers would have readily available UI training modules to assist newly hire staff and season staff needing refresher training.

Technology Upgrades to UI Tax Program

Field Tax Assignment Tracking System—A web based system that will provide a more efficient process for tracking assignments.

The advantage of obtaining this system is that it will allow staff to easily identify and focus on delinquent large dollar money assignments.

Adjudication Imaging System—This imaging system is designed to capture images of documents to the Adjudication Section. The project's goal is to replace the existing microfiche and film-based imaging system with a digital system.

The advantages of obtaining this System are providing real time Statewide access to confidential documents and improved efficiency in work processes.

TOPICS—Tax Processing System Enhancement—This system images and processing tax and wage documents. The enhancement will allow additional tax related documents, to be imaged and/or processed more accurately in a timely manner. The advantage of obtaining this System is reduced processing time for tax & wage documents and quarterly processing.

Thank you for the opportunity to testify. We appreciate your concern for the challenges we face at the State level.

Chairman MCDERMOTT. Thank you for your testimony.

Our next witness is Mr. Walsh, who is the deputy director of the Iowa Workforce Development in Des Moines, Iowa.

Mr. Walsh.

STATEMENT OF JOSEPH L. WALSH, DEPUTY DIRECTOR, IOWA WORKFORCE DEVELOPMENT, DES MOINES, IOWA

Mr. WALSH. Thank you very much. Thank you, Mr. Chairman and Members of the Committee.

It's a great honor for me to be here today with the opportunity to speak to you about the importance of our unemployment insurance system, and specifically, the American Recovery and Reinvestment Act.

With the help of Congress, I believe that our workforce system is on the verge of achieving tremendous accomplishments to improve the lives of working people.

I think it's most important for me, though, to thank the frontline workforce staff and workforce professionals for their dedication and sacrifices during this economic turmoil.

While I have the privilege of discussing these issues with you here today, it is the direct customer service workers from all across the country who are, at this very moment, going above and beyond to help ordinary workers through these difficult economic times.

In Iowa, we have an incredible staff. They work long hours under stressful conditions, and often helplessly feel the pain of workers who are suffering job losses.

Their work is frequently thankless, and they are often on the frontlines of frustration and anger. In some cases, they even fear for their personal safety. Yet they know that, if they do not get claims processed timely, families may go without a check, so they work a little harder each day, and these folks are truly the backbone of our workforce system, and I would like to start by thanking them today.

The decline in Iowa's economy coincided with our normal seasonal downturn. We came a little bit late to the recession in Iowa, and our unemployment rate is still only 5.2 percent, but it was a dramatic increase from what we had seen before.

Right now, the traffic in our one-stop offices in claims being filed is roughly double from what it was from the previous year, and at times, our system has experienced difficulty even maintaining minimum customer service standards.

Through all of this, of course, our staff has remained strong and remarkably dedicated.

Iowa began paying emergency unemployment compensation back in July of 2008, and has continued to do that. Through all of last year, we paid about $54 million in emergency unemployment compensation. Through this year, just in the first quarter, we've paid $34.3 million, for a total of about $88 million just in EUC.

So, we've seen our payments going through the roof, essentially, in terms of what we're paying out from Iowa.

Just as a point of comparison, just in the first quarter of this year, which is usually our high quarter, we paid $227 million out in regular benefits, plus the $34 million in EUC. That's compared to last year in the first quarter when we paid out $136 million just in regular benefits in the first quarter.

We've also now triggered Tier 2, because our insured unemployment rate has reached 4 percent, and we've already paid out $6.3 million in those benefits.

The importance of these additional dollars to Iowa's economy is difficult to precisely measure. The only thing we can say for certain is, our economy would be far worse if these benefits had not been made available.

I have to ask the question, how many home foreclosures were prevented because these benefits were extended? How many rent payments or car loan payments have been made because these payments were extended? How many bags of groceries and winter coats have been bought from local stores in local communities all across the State of Iowa and all across the country?

These extensions of benefits are going directly into Iowa communities and communities across the country, and I don't think this fact should be understated for a moment.

In addition, similarly, the Federal Additional Compensation payments, the $25, those were enacted on February 17th.

The next day, our Governor signed an agreement, Governor Chet Culver, with the Department of Labor, starting to pay those benefits immediately. In fact, for the week of February 22, we were getting that money out on the streets.

That was probably the first Federal stimulus money to hit the streets out there, and that has a direct and immediate impact on our economy, simply because, in Iowa, in 2008, the average weekly benefit for an unemployed worker was about $288, and that's not enough to live on.

It's a temporary stopgap measure to stop the hemorrhaging and help people maybe not get their house foreclosed on, but it's not enough to live and pay the bills, but when you do give them a little extra help, that money will go back into our local economies immediately, and that has also had a huge impact.

The other thing that I would like to directly thank Congress for, and the President, is the additional administrative funding that has been made available.

In Iowa, we've received $5.1 million in Federal stimulus funds for the Administration of the workforce system. In addition, we've received a significant amount of contingency funds, which has been fully funded this time by the Department of Labor.

That's a recognition, I think, by Congress and the President that, in these times of high unemployment, some States are not able to meet their minimum customer service standards.

In some of our areas, we've had 2-hour waits to get in to see somebody and get a question answered. In some places, it's taken too long to get initial payments and first checks out to people.

So, with this administrative funding, we should be able to improve our service and get the payments out to people quickly.

The most significant portion, though, of the Recovery Act, I think, is the Modernization Act, and Iowa is very proud to be the first State that has actually passed all of the provisions in the law and had it signed by the governor, that included all of the provisions of it, and we're eager to submit our application to the Department of Labor for this.

We focused on a couple of different things in Iowa. One was the part-time workers. We also focused on extending training benefits for workers who are going into high-demand training fields, and in addition to doing the alternate base period.

We think that those things are going to have an incredible stimulative effect on the economy, and not only a short-term stimulative effect, but in the case of these training benefits, those are going to have a long-term stimulative effect, in terms of increasing the educational capacity and the high-skilled nature of our workforce for years to come in the future.

So, again, I'd like to close just by thanking you for all of your work on this, and helping us through this difficult time.

[The statement of Mr. Walsh follows:]

Statement of

Joseph L. Walsh
Deputy Director
Iowa Workforce Development

before the
Committee on Ways and Means
Subcommittee on Income Security and Family Support
UNITED STATES CONGRESS

April 23, 2009

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss the importance of the unemployment compensation system, and specifically the unemployment provisions of the American Recovery and Reinvestment Act.[1] It is a great honor personally for me to speak to you today about what is going on in our workforce system in Iowa. With the help of Congress, I believe our workforce system is on the verge of achieving tremendous accomplishments to strengthen our economy and improve the lives of working people. It is, however, crucial to thank frontline workforce staff for their dedication and sacrifices during this economic turmoil.

While I have the privilege of discussing these issues with you here today, it is the direct customer service workers from all across the country who are, at this very moment, going above and beyond to help ordinary workers through these difficult economic times. In Iowa, we have an incredible staff. They work long hours under stressful conditions and helplessly feel the pain of workers who are suffering job losses. Their work is frequently thankless and they are often on the frontlines of frustration and anger. In some cases, they fear for their personal safety. Yet, they know that if they do not get claims processed and problems resolved, families may go without a check. So they work a little harder each day. These folks are truly the backbone of our workforce system.

[1] For purposes of this statement, I am including the provisions of The Assistance for Unemployed Workers and Struggling Families Act as a portion of the ARRA.

In Iowa, we can only imagine how desperate our economy would be if not for the frontline workers in our unemployment insurance system and the recent help provided by Congress.

Economic Climate in Iowa

Iowa came late to the recession. Despite severe flooding through much of Iowa, our economy held strong through much of 2008. In March of 2008, Iowa's unemployment rate was under four percent and we were primarily concerned about the tightness of the labor market, which some labeled a "worker shortage." Even following the floods, our rates only increased to 4.1% in July 2008. By November 2008, we started to see significant upward movement in our seasonally-adjusted numbers. The rate has steadily continued to increase, reaching 5.2% in March 2009.

The decline in Iowa's economy coincided with our normal seasonal downturn, which has caused numerous, serious problems for the administration of our system. We saw record initial and continued claims, as well as record unemployment payrolls. Since November 2008, the number of initial and continued claims has roughly doubled from the same time period in previous years. In some areas of the State, the volume of traffic in our One-Stop offices more than doubled. At times, our system has experienced difficulty maintaining even minimum customer service standards.

The most disheartening statistic may be the number of individuals who continue to exhaust the various extensions of benefits offered by Congress. Iowa has historically been a "short-term" unemployment State, meaning our workers do not stay in the system for an extended period (less than 12 weeks). More than ever, workers are having significant difficulty obtaining employment in this economy and, therefore, have stayed on unemployment benefits longer than usual. Worse yet, to deal with the incredible volume of new and continued claims, more staff time has been spent dealing with claims and less time has been focused on helping unemployed workers find their next job. As of today, we have 86,729 unemployed workers receiving benefits through the Iowa system. The claims workload in Iowa is off the charts.

Extended Unemployment Compensation (EUC)

Through all of this, our staff has remained strong and remarkably dedicated. Iowa began paying emergency unemployment compensation (EUC) in July 2008. Because we are on a legacy mainframe computer system, this was extremely difficult to program and implement, but our staff did it. The payment of EUC also caused some confusion in the general public which resulted in significant increased walk-in and telephone traffic. During 2008, Iowa Workforce Development paid out more than $54 million in EUC. In the first quarter of 2009, we have paid out an additional $34.3 million in EUC, for a total of $88.3 million.

As a point of comparison, in the first quarter of 2009, Iowa paid out $227.1 million in regular unemployment benefits. This is a record. In addition, we paid out an additional $34.3 in EUC benefits for a grand total of $261.4 million in a single quarter. These numbers are significantly higher than the same period of the previous year. In the first quarter of 2008, Iowa paid out just over $136.6 million in regular unemployment benefits and, of course, EUC had not begun.

In addition, as of March 21, 2009, Iowa's insured unemployment rate reached 4 percent. Therefore, Iowa triggered Tier II (EUC) benefits. Since that date, we have paid $6.3 million in Tier II benefits. The grand total of all of the various federal extensions from July 2008 to the present is nearly $100 million.

The importance of these additional dollars to Iowa's economy is difficult to precisely measure. The only thing we can say for certain is that our economy would be far worse if these benefits had not been made available. How many home foreclosures were prevented because these benefits were extended? How many rent payments or car loan payments were made? How many bags of groceries and winter coats were purchased in local communities from local store owners? How many utility bills were paid on time? These extensions of benefits are going directly into Iowa communities. This fact should not be understated. These benefits are important not only for the workers, but for entire communities to survive this economic downturn. The question which must be asked is: Where would we be without this additional money coming in to our local economies?

Difficult Federal Requirements

While these benefits are incredibly important to Iowa's economy, I would offer one recommendation for future EUC legislation. The federal law requires that only individuals who had earned 1.5 times the high quarter were eligible for EUC.

This conflicts with the provisions in many states' laws, including Iowa's.

The result for Iowa, where we require that an individual earn 1.25 times the high quarter, is a major administrative headache. By the federal legislation, Iowa is required to recalculate every claimant's eligibility based upon the new formula. Approximately 871 Iowa claimants were denied EUC, even though they had been eligible for regular benefits. These Iowans, in my opinion, reasonably did not understand why they were not eligible for the additional compensation. It is impossible to determine how many have been affected by this nationally.

Iowa Workforce Development respectfully submits that this is both extremely inefficient and unfair to workers. A better method would be to allow states to determine the eligibility criteria consistent with their current law in order to avoid unnecessary redundancy in eligibility calculations. It is simply not a value-added service to require recalculations of this sort, particularly when so many states are on computer information systems which are not flexible.

Like every other hurdle they have faced, the staff at Iowa Workforce Development managed this obstacle admirably and ensured that EUC was paid timely and as efficiently as possible. Similarly, we quickly moved forward with the additional $25 payments, which was included in the American Recovery and Reinvestment Act (ARRA).

Federal Additional Compensation Payments ($25)

The ARRA was passed on February 17, 2009. On February 18, 2009 Governor Chet Culver signed an agreement with the U.S. Department of Labor to begin the additional $25 per week payments. Payments were commenced for the week of February 22, 2009. Since then, unemployed Iowa workers have received a total $13.1 million in $25 federal additional compensation payments. This is roughly $1.82 million per week that is making its way in to local Iowa economies. It is almost certainly the first federal stimulus money which actually "hit the streets."

Despite a great deal of initial administrative consternation and concern (again mostly in computer programming), these payments have generally been made with little difficulty. It should be noted that there was a great deal of programming time spent up front, again to deal with the lack of flexibility in our legacy mainframe computer system. Our IT staff worked long hours to ensure the success of this program.

The additional $25 obviously provides an immediate and real stimulus to both workers and our local communities. It should be remembered that weekly unemployment benefits will not pay the bills for the average Iowa family; it is only a temporary "stopgap" measure to prevent an unemployed worker's financial hemorrhaging. The maximum amount a single person can receive under Iowa law is $361, which is adjusted up only slightly for individuals with dependents. The average Iowa claimant in 2008 received around $288 per week. Most Iowans cannot survive on this for an extended period of time and the longer a person stays on it, the harder it becomes to survive. The addition of the $25 provides an immediate and direct stimulus to local communities and gives families who are really suffering a little help.

Importance of Administrative Funding

It is important to note that, between the UI administrative provisions of the ARRA and the normal contingency funds provided by U.S. Department of Labor, Iowa has received a significant amount of additional funding to administer the unemployment system. This is critical at this point in time.

Historically, our system is underfunded and under-built. During a time of economic crisis, low staffing exacerbates many of the problems I have tried to outline above. In some of our high-volume offices, customers have had to wait in excess of two hours. Telephone wait times have been both frustrating and depressing. On occasion, families who need these benefits the most have been forced to wait for an unacceptable length of time to receive their first checks. This is certainly not because our staff is not passionate about what they do; it is solely and simply due to the fact that we do not have enough staff to meet the demand. Since October 2009, workers in the Unemployment Insurance Service Center have collectively worked over 3,468 hours of overtime. IT staff have logged over 4,000 hours of overtime during this period.

As I mentioned previously, with the majority of our staff and resources focused on processing claims and answering the plethora of claims-related questions, our One-Stop centers have had far less time to deal with helping unemployed Iowans get off unemployment and find their next job. Even during this time of economic crisis, our State job bank, *iowajobs.org*, has approximately 13,000 job openings posted. Many Iowa employers are still expressing the need for skilled workers in a variety of positions.

Periods of economic instability can provide opportunities for both employers and workers. Employers frequently improve efficiency during periods of economic turbulence while workers often find more suitable job matches. The role of the workforce system is to help employers and workers effectively manage these economic downturns and lessen the negative economic impact.

Additional administrative dollars have allowed Iowa Workforce Development to begin the hiring process for an additional 54 jobs statewide to help ease the claims burden so that minimum customer service standards can be met and more staff can focus on helping Iowans find their next job. The result will be better service to Iowans who really need the help.

These administrative dollars are absolutely crucial at this point in time. While the number of claims has only doubled, the administrative problems created with extended benefits, Tier II, additional payments and other federal mandates, has increased exponentially. It is a breath of fresh air that Congress and the President have recognized the need for increased administrative funding during this economic downturn as this has not always been the case.

Unemployment Insurance Modernization

The most significant unemployment provisions of the ARRA came in the form of the Unemployment Insurance Modernization Act. This legislation provides significant Reed Act funding - for Iowa almost $71 million - for states which pass progressive reforms to their unemployment laws designed to bring state systems into the modern era.

Iowa Workforce Development proposed a state-level modernization act in 2008 even before the federal legislation had passed. It passed the Iowa State Senate, but failed in the House on the last night of session in 2008. In Iowa, we focused primarily on two of the reforms: (1) extended benefits for workers in high-demand training programs and (2) alternate base period.[2]

Investing in Workers

The genesis of IWD's push for extended benefits for workers in demand training can be traced back to Iowa's shortage of skilled workers. Simply defined, the problem is this. Iowa's population growth has been stagnant or declining in recent years. The projections suggest that the best Iowa can hope for is to not lose population over the next twenty years, but many projections show Iowa losing workers. In the meantime, until the recession, employers were creating 2,500 jobs per month. Significant job creation combined with stagnant or declining population has created very tight labor markets in recent history.

The bigger and more immediate problem is that workers frequently do not have skills that match the needs of employers in their communities. As traditional manufacturing jobs leave the state and country, workers are left with skills that are best suited for dying (or already dead) industries. The high-demand, high-wage jobs of the future, in fields such as advanced manufacturing, information technology, energy and healthcare, require more education, training and skills.

Obviously, the tight labor markets have loosened up as unemployment has risen dramatically. The shortage of skilled workers, however, is only exacerbated in this declining economy. More workers are being displaced from traditional or old-style manufacturing jobs. To the extent that good paying jobs exist at all, they require higher skill levels and they are in different industries.

Director Elisabeth Buck and I took our leadership positions at Iowa Workforce Development in August 2007. Since we were both outsiders to the agency, we decided to take the opportunity to conduct a "listening and learning tour" for the first 100 days. We traveled to every region of the state and listened to employers and dislocated workers. Without fail, in every region of the state, employers told us that they could not find skilled workers to meet their demand. Similarly, in every region of the state, we met dislocated workers who were victims of declining

[2] The third element of the bill involved the part-time worker provisions. Essentially, Iowa merely codified its long-standing practice of allowing benefits for part-time workers for compliance. This was not a major breakthrough, but merely a codification of existing law.

industries and unfair foreign trade who did not have the skills to go back out in the competitive job market and obtain a decent wage. We met many workers who had begun in educational programs to obtain further education, but had to dropout because they did not have the financial means to continue once their unemployment was exhausted.

It quickly became apparent to us that Iowa needed to make a significant investment in lifelong learning for its workers. It was also immediately apparent to us that the unemployment system needed "modernized" in that the existing model did not account for allowing or helping workers who were leaving declining occupations, an opportunity to obtain demand skills.

Extended Training Benefits

The Unemployment Insurance Modernization Act provided the perfect vehicle for significantly investing in Iowa workers. Iowa's law, Senate File 197, was drafted to allow up to an additional 26 weeks of benefits for any worker who seeks training in a high-demand or high-tech occupation. Simply stated, the law was drafted to give workers a chance. We live in a competitive, skills-based economy. A worker's only job security in the new economy lies in their skills. This reform gives industrious workers an opportunity to better their lives through education.

Iowa Workforce Development anticipates that as many as 1,900 workers in an average year will take advantage of extended training benefits to improve their skills in fields such as information technology, healthcare, energy and wind power and advanced manufacturing. Iowans like Melissa Paulson will have a fighting chance to improve their lives. Melissa is a single mother of two from Huxley, Iowa with a high school education. She was laid off from Pella Windows in Story City in the spring of 2008. This was an excellent job with benefits. She was helped by Iowa Workforce Development and DMACC through our Rapid Response dislocated worker program. She started back to school in August 2008 in a program called Industrial Electromechanical Technology. Between the federal extensions and the extended training benefits, thousands of workers like Melissa will have a chance to better themselves and their families.

Alternate Base Period = Stimulus

The second provision Iowa focused on was the alternate base period. To us, this was a matter of simple fairness.

Unemployment compensation is not a welfare program. It is an insurance program. One of the eligibility criteria is that a worker must show an attachment to the labor force. In Iowa, this is demonstrated by proving that the claimant has earned wages in two out of the most recent four quarters, excluding the most recent full quarter (also known as the "lag quarter.")

The only reason the lag quarter is excluded is because it is difficult to discern a claimant's wages for the most recent full quarter. Specifically, it was far more difficult to make such a determination back in the 1930's when the law was first written. While our electronic system is not perfect, it is much easier to make such determinations in 2009 compared to 1939. As our technology continues to improve, there will eventually be no barrier to accessing this information almost instantly.

As a simple matter of fairness, Iowa Workforce Development sought to acknowledge the lag quarter in instances where the worker did not meet the criteria during the regular base period. This will allow more workers to become eligible for benefits in the quarter they first become unemployed. In the current economy, this should have an incredible stimulative effect.

Iowa Workforce Development estimates that 5,500 workers will become eligible for benefits using the alternate base period in an average year. Estimates demonstrate that there will be a significant cost to this, but it must be remembered that these are individuals who will become eligible for the benefits. In other words, more than costing additional money, the alternate base period mostly speeds up the payments to individuals who would otherwise have to wait until the quarter change to begin on benefits. Our information suggests that these individuals are often the poorest workers in our system. They likely have limited savings or other resources. In essence, they are the least likely candidates to survive until the quarter change. It also seems to disproportionately affect mothers who have spent time out of the workforce caring for children, students and other groups who have had occasion to be out of the workforce for extended periods.

A Strong, Progressive Coalition

Iowa is proud to be the first State in the country to pass all of the provisions of the Unemployment Insurance Modernization Act into law. Iowa was able to accomplish this because we had proposed this legislation, and pursued it vigorously in 2008, even before the federal legislation had passed. We had educated local legislators and interest groups and laid a foundational framework. We built a strong coalition of workforce system partners, community colleges, organized labor and business groups. Senate File 197 passed the Iowa Senate 47-0, with unanimous bipartisan support. It then passed the House 84-13, again with bipartisan support.

In the end, the Reed Act distribution was the key to obtaining such widespread support and particularly that of the business community. While Iowa Workforce Development does not issue official projections, it is apparent that the State is likely headed for a unemployment tax table increase based upon the record payout of benefits. The only possible way to avert or minimize such an outcome is to have an infusion of dollars into the fund. The Reed Act funding accomplished this. These fund were ultimately a key component to obtaining support of business groups and bipartisan legislative support.

Conclusion

I want to thank you for your support of the workforce and economic security system. The changes you have made have strengthened our system and helped to empower frontline workforce professionals to assist workers and their families through this crisis in a meaningful way. I have greatly appreciated the opportunity to share my thoughts with you.

Chairman MCDERMOTT. Thank you for your testimony.

Mr. Emsellem is the policy director for the National Employment Law Project in Oakland, California.

Mr. Emsellem.

STATEMENT OF MAURICE EMSELLEM, POLICY CO-DIRECTOR, NATIONAL EMPLOYMENT LAW PROJECT, OAKLAND, CALIFORNIA

Mr. EMSELLEM. Thank you, Mr. Chairman, Members of the Committee.

Our organization, the National Employment Law Project, specializes in the unemployment insurance program. These past 2 months, we've been working in the States to help implement the stimulus legislation, which will provide relief to the struggling economy and to the millions of families hardest hit by this severe recession.

Chairman McDermott, we wanted to begin by expressing our appreciation for your remarkable leadership and the dedication of your staff in bringing about the historic reforms adopted by the stimulus legislation.

Given the unemployment crisis, it is welcome news to the unemployed workers and their families in this country that their voices are being heard here in Congress.

We also appreciate the strong support of the Obama Administration and the very hard work of the Labor Department's expert staff charged with immediately implementing the new law.

Starting with the State unemployment insurance modernization program, I wanted to provide some background on our understanding of the process so far.

Our sense is, the punch line is very clear. Nearly every State has been taking a serious look at the incentive funding option, and more and more, both governors and legislatures are concluding that it serves the best interests of the unemployed, the unemployment insurance system, and the States' employers.

In just 2 months, a dozen States have already enacted legislation that qualifies for the Federal incentive funding, and it's likely that at least half the States will do so by the end of the year.

States as diverse as Arkansas, California, Georgia, Iowa, Nevada, Oregon, South Dakota, West Virginia, evenly represented by Governors of both political parties, have put politics aside in this recession to do what's right for unemployed workers.

While a handful of Governors continue to hold out, they are under significant pressure to rethink their positions, thanks to the actions of their State legislatures.

That's the case, for example, in Alaska, where the legislature just approved a bill by a veto-proof margin, which is now on its way to its Governor.

What, then, are some of the key considerations that are moving the States?

First, the legislation addresses a clear and compelling need to modernize the State unemployment program, to help low-wage workers and others who are falling through the cracks of the system.

For example, we have heard no serious opposition in the States to the logic or fairness of the incentive funding reform called the alternative base period. The six new States that will now update their computer systems to start counting these workers' recent wages will provide benefits to another 75,000 workers a year, which is what the unemployment modernization program is all about.

Second, the legislation takes the best of what's already been adopted in the States and backs these reforms with serious sums of incentive funding. Most States qualify for enough Federal funding to pay for at least 7 years of the new State benefits. In fact, given the large sums of funding available, most States are moving on the extra reforms like Iowa, that qualify for the full amount of the incentive grant.

Finally, the Federal stimulus funds could not have come in at a more critical moment for the States. Just when they're starting their legislative sessions, and struggling with the realities of more limited reserves in their trust funds to pay benefits, then along comes the major infusion of Federal funding, which the States collect all at once, even if they put off implementing the new reforms for as much as a year.

Thus, the incentive funds provide more breathing room in many States to respond to their funding concerns.

By boosting the State reserves, the incentive funds also help prevent, delay, or reduce scheduled tax increases that would kick in in many States to replenish the trust funds.

Texas provides a vivid example of how this works, with the infusion of $555 million in incentive funds, it will reduce the scheduled tax increase on employers by $450 million to $500 million.

That's why, in States like Nevada and Alaska, and others, employer groups are now coming out in support of the Federal incentive funding.

While there is still some time to go before the modernization program deadline of October 2011, for sure the progress in activity to date has been very encouraging.

Finally, giving the surging rates of long-term unemployment and the record rate of exhaustion of State benefits, as was mentioned by Congressman Levin earlier, it's important to take a look at the stimulus bill's extended benefits provision.

The stimulus legislation suspends the Federal requirement that these extended benefits be paid 50 percent by the States, and instead provides full Federal funding for the program.

The good news, as was mentioned, is that 27 high unemployment States now qualify for federally funded extended benefits, which is a huge help to more than a million workers and of course to the State unemployment trust funds.

The bad news is that 13 States have still not paid the benefits, because they have failed to take up a Federal option that allows the program to kick in when the State's unemployment rate reaches 6.5 percent, even though they have the authority to sunset the benefits when the Federal sharing runs out in December.

As a result, in the next several months, nearly 400,000 long-term jobless workers will be denied critical benefits in those very States with the highest rates of unemployment. Thus, much more needs to be done right now, right away, to urge these States to provide the federally extended benefits.

Thank you.

[The statement of Mr. Emsellem follows:]

Testimony of
Maurice Emsellem
National Employment Law Project

Hearing Before the
U.S. House of Representatives,
Ways & Means Committee,
Subcommittee on Income Security & Family Support

April 23, 2009

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Testimony of Maurice Emsellem
Before the U.S. House of Representatives, Ways & Means Committee,
Subcommittee on Income Security & Family Support
April 23, 2009

Chairman McDermott and members of the Committee, thank you for this opportunity to testify on key features of the federal response to the nation's economic crisis, specifically the unemployment insurance provisions of the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).

My name is Maurice Emsellem, and I am the Policy Co-Director for the National Employment Law Project (NELP), a non-profit research and advocacy organization that specializes in economic security programs, including unemployment insurance (UI), Trade Adjustment Assistance (TAA) and the workforce development system. We have a long history serving families hardest hit by economic downturns by helping them access their benefits and promoting innovative state and federal policies that deliver on the nation's promise of economic opportunity.

Since the ARRA was enacted on February 17th, we have actively educated state officials and supported initiatives in over 40 states to modernize their unemployment insurance programs with the help of the $7 billion in federal incentive funding. In our testimony, we detail the remarkable reforms made possible in just the last two months as a result of the ARRA. Already, 12 states have enacted legislation that will qualify for incentive funds and we expect at least twenty more to do so in the coming months as their legislative sessions wind down.

While helping thousands of workers collect benefits who have been unfairly left out of the unemployment system, the ARRA has also provided state unemployment trust funds with a significant infusion of cash when they need the help most. As a result, employers have also benefited significantly because the infusion of funds prevented scheduled tax increases from triggering. While a handful of Governors continue to oppose accepting the federal unemployment incentive funds, the compelling facts on the ground have convinced those who have taken a serious look at their options to adopt the modernization reforms.

With long-term unemployment exceeding record recession levels, workers and the state trust funds are now benefiting from the ARRA's provision to fully fund an additional 13 to 20 weeks of Extended Benefits (EB), the program which is normally funded 50 percent by the states. In states with high unemployment, EB is available to those who run out of their 20 to 33 weeks of the Emergency Unemployment Compensation (EUC), the temporary federal extension created in July 2008.

The EB program is now providing benefits to workers in over 20 states, helping more than two million workers this year to fill the hole left when their EUC benefits ended. However, over 300,000 workers will likely be left without any EB benefits despite the full federal funding provided by the ARRA unless certain states with especially high levels of unemployment act quickly to adopt a temporary change in state law that will allow the state to immediately qualify for EB.

Together with the $25 increase in weekly state and federal benefits, the suspension of the federal tax on unemployment benefits (up to $2,400) and the extension of EUC though December 2009, these ARRA provisions will generate a major boost to the economy. We estimate that the ARRA will produce over $140 billion in economic growth in 2009, which does not count the $53.5 billion in state unemployment benefits that will be pumped into the economy this year.

The historic challenges facing the national economy require especially bold and innovative policy responses. With the unemployment insurance provisions of the ARRA, driven by your leadership, Congressman McDermott, and President Obama's strong support, the nation has delivered on the President Roosevelt's vision for the unemployment insurance program by generating significant economic growth while helping those families hit hardest by unemployment. The reforms made possible by the ARRA reverse decades of neglect and put system back on track to meet the serious challenges of the 21st Century.

A. The Current Unemployment Crisis

The magnitude of the nation's current unemployment crisis cannot be overstated. Already, the unemployment rate has surged to 8.5 percent, and it is fast approaching the post-Depression record rate of 10.8 percent experienced during the devastating 1980s recession.

Meanwhile, unemployment claims have now surpassed record levels, with more than six million people collecting state benefits and another two million workers receiving the federal EUC extension. As the ranks of the unemployed continue to swell with monthly job losses exceeding 600,000, there are now nearly four jobless workers for every job opening in today's labor market.

These and other forces have also produced record rates of long-term joblessness, which has gripped workers and families of nearly all income and education backgrounds. Indeed, last month, 45.6 percent of all workers collecting state unemployment insurance reached the end of their maximum 26 weeks of benefits. That is the highest exhaustion rate on record, dating back to 1972 when the data were first reported.

Also in March, more than 3.2 million Americans were still officially counted as unemployed after actively looking for work for more than six months. The national rate of 24.2 percent long-term unemployment is the highest incidence during any period of recession since the records were first kept in 1948. The highest rate of long-term unemployment on record is 26 percent, which was the peak experienced eight months after the 1980s recession ended, in November 1982. Consistent with prior recessions, it is likely that today's record rates of long-term unemployment will continue to climb and surpass the 1980s post-recession record.

To help document the hardships of families resulting from the recession, NELP commissioned Peter D. Hart Research Associates to conduct a national poll of unemployed workers in November 2008. The results are disheartening, especially given that the poll took place as the extreme job losses of the past six months had just begun.[1] For example, more than two-thirds of those surveyed had cut back on food and groceries, while one in four had skipped meals altogether due to lack of income. More than one-third of all renters had to move in with family and friends, and half of all unemployed families were forced to borrow money to cover their basic expenses.

As the labor market worsens and workers find themselves jobless for record periods of time, families will suffer even more distressing levels of economic and personal hardship. In today's economy, unemployment benefits are often the only lifeline available for these workers to keep their families afloat and provide the hope and determination necessary to get back on their feet.

B. The Critical Role of the Unemployment Insurance Program

When President Franklin D. Roosevelt sent the Social Security Act to Congress for consideration in January 1935, his vision for the unemployment insurance program was clear and compelling. Unemployment insurance "should be constructed in such a way as to afford every practical aid and incentive toward the larger purpose of employment stabilization."[2]

The accompanying report of the Committee on Economic Security provided the details of a new program to serve as the "first line of defense" to immediately address the desperate needs of unemployed families and the struggling economy.[3] As the law moved toward final passage in August 1935, an ambitious new unemployment insurance program was established that was in part a creature of federal policy and part a creation of the states.

1. Boosting the Nation's Economy

While the economy has changed dramatically in the past 70 years, today's severe recession reminds us of the critical importance of President Roosevelt's "employment stabilization" mandate for the unemployment program. And his vision has clearly survived the test of time. Economists of all persuasions applaud the "counter-cyclical" nature of the program and its documented impact on economic growth.

In fact, a major study of several of the recent recessions found that unemployment benefits contribute \$2.15 in economic growth for every dollar of benefits circulating in the economy.[4] According to our estimates, the ARRA will thus produce over \$140 billion in economic growth through the end of the year, just when the economy needs the help most. Including the multiplier, the estimate accounts for the benefits provided by the EUC program (\$44.7 billion),

[1] Peter D. Hart Research Associates, "Unemployed in America: The Job Market, the Realities of Unemployment and the Impact of Unemployment Benefits, conducted November 14-18, 2008 (commissioned by the National Employment Law Project).
[2] Witte, *The Development of the Social Security Act* (University of Wisconsin Press: 1962), at page 128.
[3] Larson, Murray, "The Development of the Unemployment Insurance System in the United States," 8 Vand.L.Rev. 181, 186 (1955).
[4] Chimerine, et al. "Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness Over Three Decades," U.S. Department of Labor, Unemployment Insurance Occasional Paper 9908 (1999).

the Extended Benefits program ($6.5 billion), the $25 increase in weekly benefits ($8.6 billion), the suspension of the federal income tax ($2.7 billion) and a projected $4 billion in federal incentive funds to be distributed this year. It does not include the $53.5 billion in state benefits expected to be distributed this year, which reflects an increase in benefits of about $20 billion compared to 2008.

2. Alleviating Economic Hardship

Even for families who have bought a home and earn middle-class wages, a layoff in today's economy will often result in extreme economic hardship, including incomes that fall below the poverty level. However, as the research has shown, unemployment benefits play a major role preventing workers from ending up in poverty.[5]

Before becoming unemployed, only 7 percent of unemployment recipients report family incomes below the official poverty level. When these workers become unemployed and collect all their state jobless benefits, one-third of the families find themselves destitute as measured by the official poverty guidelines. That figure increases significantly to one-half of all families who would end up in poverty without the help of unemployment benefits.

As measured by food consumption of the unemployed, which is the most basic indicator of family subsistence during tough times, there is no doubt that unemployment benefits help families prevent serious hardship. For example, NELP's 2008 national survey of the unemployed found that those workers collecting unemployment benefits were half as likely as those who did not receive benefits to be forced to skip meals to help them get by financially.[6]

3. Stabilizing Housing

Also of special significance to today's economic crisis, unemployment benefits contribute to stabilizing the housing market in those communities devastated by layoffs and foreclosures. In fact, 46 percent of foreclosures now result from workers who have lost their income due to layoffs, which is up significantly over prior years.[7]

Families of jobless workers spend more of their unemployment benefits to cover the costs of their mortgages and rent than for any other household expense. A major state study found that 41% of expenditures paid for with unemployment benefits were applied to housing costs.[8] Another national study found that the availability of unemployment benefits reduced the chances that a worker will be forced to sell the family home by almost one-half.[9]

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[5] U.S. Congressional Budget Office, "Family Income of Unemployment Insurance Recipients" (March 2004), at page 13.
[6] "Unemployed in America," page 4.
[7] "Mounting Job Loses Fueling Foreclosures," CNNMoney.com (November 6, 2008).
[8] State of Washington, Employment Security Department, "Claimant Expenditure Survey, 2005" (January 2006).
[9] Gruber, "Unemployment Insurance, Consumption Smoothing, and Private Insurance: Evidence from the PSID and CEX." Advisory Council on Unemployment Compensation Background Papers, Vol. 1 (1995), at page 20.

4. Promoting Quality Jobs & Strong Labor Standards

Unemployment benefits also help maintain U.S. labor standards and promote economic opportunity. The unemployment system promotes productivity by allowing workers to match their skills to the best available job, which means they ultimately receive higher pay as well (by a factor of $240 a month for those who collect benefits, compared to those who do not).[10] With the help of unemployment benefits, which allow workers the extra time they need to seek out quality jobs, families are also far more likely to find work that provides employer-sponsored health insurance.[11]

C. The Unemployment Insurance Provisions of the American Recovery and Reinvestment Act of 2009 (ARRA)

As summarized below, the unemployment insurance provisions of the ARRA were historic in scope, responding boldly to the serious challenges facing the unemployment insurance system and those families hardest hit by the recession.

- **Federal Incentives to Modernize the State Unemployment Insurance Programs.** Responding to the outdated eligibility rules that disproportionately deny benefits to low-wage wage and women workers, the ARRA provides $7 billion in incentive funding to help states modernize their state unemployment programs. The ARRA also rewards state reforms that help the long-term unemployed to participate in training. All states also qualify for their share of $500 million in federal funds to improve state services and expand outreach to the unemployed.

- **Federally-Funded Extended Jobless Benefits**: Responding to the record rates of long-term unemployment, the ARRA continues the 20-33 week federal program of Emergency Unemployment Compensation (EUC) until December 2009 (with a phase-out through August 2010 for those who qualify in 2009). In addition, states have the option to change their laws to qualify for an additional 13 to 20 weeks of fully-federally- funded Extended Benefits (which is normally funded 50 percent by the states) through December 2009.

- **Boosting the Purchasing Power of Jobless Benefits.** Responding to the rising costs of food, gas and other basic goods and services and the relatively low level of benefits provided by the states, the ARRA also increased both federal and state benefits by $25 a week (ending December 2009) and suspended the federal requirement that workers pay federal income taxes on their jobless benefits, up to $2,400 per worker (for taxable year 2009).

- **Waiving Federal Interest on Loans Provided the States:** Responding to the growing number of states seeking federal loans to pay unemployment benefits (now totaling 14),

[10] National Employment Law Project, "Unemployment Insurance is Vital to Workers, Employers and the Struggling Economy" (Updated December 5, 2002), page 4.
[11] Heather Boushey, Jeffrey Wenger, "Finding The Better Fit: Receiving Unemployment Insurance Increases Likelihood of Re-Employment with Health Insurance" (Economic Policy Institute: April 15, 2005).

the ARRA also allowed the states to suspend the interest they would otherwise be required to pay on their federal loans through to December 2010.

1. Unemployment Insurance Modernization Incentive Funding Generates Major State Reforms Benefiting Workers, the State Trust Funds and Employers.

Since the ARRA was enacted only two months ago, and as a direct result of the $7 billion in federal incentive funding, almost half the states have made major strides toward modernizing their programs. Indeed, to the credit of state officials, the business and labor communities, nearly all states have put politics aside and made truly informed decisions to modernize their state unemployment programs, thus benefiting not just workers, but also the struggling state trust funds and employers when they need the help most.

a. The Basics of the Stimulus Incentive Funding

Thanks to your dedicated leadership, Chairman McDermott, and President Obama's strong support, the unemployment incentive funding provisions made their way into the ARRA, thus incorporating the Unemployment Insurance Modernization Act (H.R. 2233) which you sponsored, and the corresponding Senate legislation sponsored by Senator Kennedy and others (S.1871).

The UIMA targeted the fundamental problem of the outdated gaps in the unemployment insurance program documented for decades by several leading authorities, including the bi-partisan Advisory Council on Unemployment Compensation.[12] Indeed, the unemployment system is so severely compromised that only 37 percent of jobless workers collected state benefits last year. The federal legislation took the best of all the reforms that have been tested in the states to address these concerns and made federal funding available to address the most serious gaps in the unemployment program.

Of special significance, ARRA targets low-wage workers who are unfairly denied unemployment benefits not because they didn't work enough but simply because the antiquated eligibility rules fail to count their most recent earnings. Indeed, according to the U.S. Government Accountability Office, low-wage workers are twice as likely as higher wage workers to find themselves unemployed, but they are only one-third as likely to collect jobless benefits.[13]

Thus, to qualify for the first one-third of the ARRA's incentive funding, the states must adopt the "alternative base period," which allows workers to count their recent earnings when needed for them to qualify for unemployment benefits. This reform modernizes the system to take into account that the worker's wage history is readily available on computer, thus eliminating the lag time that was built into the system when all the information had to be collected by hand before the age of computers.

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[12] Advisory Council on Unemployment Compensation, *Collected Findings and Recommendations: 1994-1996* (1996).

[13] Government Accountability Office, "Unemployment Insurance Receipt of Benefits Has Declined, With Continued Disparities for Low-Wage and Part-Time Workers" (GAO-07-1243T, 2007), page 8.

To qualify for the remaining two-thirds of the ARRA incentive funding, states are provided a menu of options that target the other major groups who fall through the cracks of the unemployment system, including part-time workers, women with families and the long-term unemployed. Specifically, to qualify for the additional ARRA incentive funds, a state must provide benefits to workers in at least two of the following four categories:

- Part-time workers who are denied benefits in many states because they are required to actively seek full-time employment;
- Individuals who leave work for compelling family reasons, specifically including domestic violence, caring for a sick family member or moving because a spouse has been relocated to another location;
- Workers with dependent family members who would qualify for up to $15 more in benefits a week, per dependent up to a total of $50, to help cover the added expenses associated with dependent care.
- Permanently laid-off workers who require access to training in order to get meaningful re-employment, with the help of an extra 26 weeks of extra unemployment benefits.

Based on a methodology developed by the U.S. Department of Labor, NELP estimates that over 500,000 workers would qualify for the unemployment benefits if all the states adopted the full complement of ARRA reforms. In addition, the funding provided by the ARRA will, on average, pay for about seven years of new state benefits, thus providing a substantial financial incentive to adopt the necessary reforms.[14]

Shortly after the ARRA was signed into law, the U.S. Department of Labor (DOL) issued a guidance providing critical details on the state provisions that qualify for federal incentive funding.[15] Based on the federal guidance, the states are now passing laws and negotiating changes in regulations and policies to submit their incentive funding applications for official DOL certification before the October 2011 deadline.[16]

Additional DOL guidance also clarified the ARRA's provision that precludes states from qualifying for incentive funding if their statutes explicitly sunset the required reform provisions. According to the guidance, "While states are free to change or repeal the provisions on which modernization payments were based subsequent to receipt of incentive payments, Congress and the Department rely on states' good faith in adopting the eligibility criteria, and the applications must attest to this good faith . . . ."[17]

[14] National Employment Law Project, "Question & Answer, The Unemployment Insurance Modernization Act: Filing the Gaps in the Unemployment Safety Net While Stimulating the Economy" (Updated February 17, 2009), Table 4.
[15] Unemployment Insurance Program Letter 14-09 (February 26, 2009).
[16] As of this week, DOL has certified five states for the first third of the federal incentive funding (Connecticut, Illinois, Massachusetts, New Hampshire and West Virginia) and one state (New Jersey) for its full federal grant.
[17] Unemployment Insurance Program Letter 14-09, Change 1 (March 19, 2009), CH 1-1.

b. Analysis of State Incentive Funding Activity

The timing of the ARRA's enactment could not have been better choreographed for the states to implement the unemployment insurance provisions. Simultaneously with the ARRA's enactment in February, the downturn deepened and the state legislative sessions were just getting started, thus providing the appropriate forum to seriously analyze and debate the state options.

As a result of the legislative process, even in states where governors initially expressed reservations about the incentive funding (and in sometimes outright opposition), including Georgia and Nevada, a more deliberate debate of the options and the movement of their state legislatures helped turn the dissenting governors around. In the handful of other states where governors continue to hold out against the incentive funding, such as Alaska and Texas, some state legislatures have moved full steam ahead with legislation thus directly challenging the Governors' position.

- Major Movement in the States

As summarized in Table 1, 12 states have thus far enacted legislation that will likely qualify for incentive funding upon review by DOL. These leading states include Arkansas, California (effective April 2011), Connecticut, Georgia, Iowa, Maine, Minnesota, Nevada, New Jersey, Oregon, South Dakota and West Virginia). They are divided almost equally between states represented by both Republican and Democratic governors. In addition, this weekend, Alaska's legislature passed an unemployment incentive funding bill by a veto-proof margin, backed by the Chamber of Commerce.

Another seven states have legislation pending that has either passed one chamber of the legislature (Idaho, Kansas, New Hampshire, Texas), or has moved through necessary committees. Two states have set up commissions to evaluate proposals (Kentucky and Utah). Virginia's Assembly is the only legislative body to have voted down the unemployment incentive reform legislation, although the Governor supports the bill and may seek to pass the legislation in special session.

Nearly all the remaining states have either introduced legislation or are actively developing proposals, typically with state officials working along with the business and labor community. These include states such as Michigan, Tennessee and New York, where the governors strongly support the incentive reforms as well as many states that already qualify for at least one-third of their funding based on the "alternative base period."

- State Reform Options and State Fiscal Impact

With the exception of South Dakota and West Virginia, which adopted only the alternative base period, all the states that have enacted legislation will likely qualify for the full amount of federal incentive funding assuming they are approved for certification by DOL.

In total, the states that have acted will draw down almost $2 billion in federal incentive funding. Without enacting any additional changes in law, another 14 states (plus the District of Columbia) will qualify for about $1 billion more in incentive dollars based solely on existing alternative base period laws and other state laws that meet the requirements for federal stimulus funding.

Once certified by DOL, the federal incentive funds are deposited in a lump sum in the state's unemployment trust fund. This major infusion of federal funding allows the growing number of states that have depleted their state trust funds (expected to total about 20 by the end of the year and at least 30 by the end of next year) to reduce or delay federal borrowing to pay state benefits.

Several of the states that have already moved legislation only needed to enact the "alternative base period" to qualify for the full incentive funding (California, Nevada, Oregon). Others had to adopt broader reforms to qualify (Arkansas, Georgia, Iowa). And the remaining states had to make relatively minor adjustments to their existing laws to qualify for the federal incentive funds (Connecticut, Maine, Minnesota).

These diverse state scenarios are consistent with the situation elsewhere around the country where the unemployment stimulus proposals are being actively debated. Nearly all the states have indicated a preference to adopt the reforms necessary for them to receive the full amount of federal incentive funding, not just the first third made possible by adopting the alternative base period. However, some states will be required to adopt a broader set of the ARRA reforms necessary to qualify for federal incentive funding, while others that already had some reforms in place are only obligated to enact more limited measures.

As a result of these laws already enacted, 27 states have now adopted the alternative base period, an increase of six states. The new state legislation and developing state proposals have also consistently included the option to make benefits available to workers seeking part-time work. So far, the states have been evenly split between the option to provide 26 weeks of benefits to workers in training and the provisions allowing workers to leave work for compelling family reasons. Fewer states appear to be adopting the "dependent benefits" option to qualify for the federal incentive funds.

- <u>Employers' Taxes Reduced by Stimulus Funds</u>

Contrary to the arguments of some naysayers, the major infusion of federal incentive funding has significantly increased state trust fund balances just in time to preclude otherwise scheduled tax increases intended to replenish state reserves.

While every state sets its trust fund balance target differently, most increase or decrease their unemployment insurance tax rates based on the health of the state's unemployment fund reserves. When the reserves are low, employer contributions automatically increase or special tax assessments are triggered to replenish the fund to specific levels. When trust funds are in better shape, employer taxes will eventually drop back again, and the cycle continues throughout good economic times and bad.

Indeed, even a minor infusion of new funding to the state's trust fund can prevent a major increase in state unemployment taxes. That was the experience last recession when Congress and President Bush authorize the release $8 billion in "Reed Act" funds to all the states, with no conditions on the federal funding to also expand benefits. As the GAO found, these funds had the effect of cutting taxes or preventing scheduled tax increases in 30 states.[18] However, only a limited number of states took advantage of the funds to significantly expand benefits.

The ARRA, in contrast, conditions the federal funding on reforms adopted by the states. However, the law also provides sufficient funding all at once to pay for at least seven years of benefits in the average state, which then allows the state to build up the reserves necessary to also preclude, limit or delay tax increases. It is important to emphasize that when the new state benefits are no longer paid for by the federal funding, that does not mean that taxes on employers will increase. Typically, the benefits adopted as a result of the ARRA reforms are not costly enough to tip the scale that ends up triggering a higher tax rate for all employers.

By way of example, consider the how the federal incentive funding reduces the tax obligation of Florida, South Dakota and Texas. In Florida, taxes will increase when the trust fund drops below $2 billion this year, but the federal incentive funds will cut the projected tax increase by 20 percent. In South Dakota, taxes would have increased by $25 million when the trust fund falls below $11 million, but the federal incentive funding keeps the fund above the required level. In Texas, the state fund is projected to have a deficit of $750 million by September 2009, which will trigger a "replenishment tax." Taking into account the cost of the required reforms, the federal incentive funding will save employers $450 to $500 million in required tax increases.

State	Federal Incentive Funding	Estimated Annual Cost of State Reforms	State Trust Fund Solvency Measures	Employer Tax Savings
Florida	$444.3 million	$71.5 million	$2 billion trust fund balance triggers tax increase.	$104 million
South Dakota	$5.9 million	$1.1 million	$11 million trust fund balance triggers tax increase.	$25 million
Texas	$555.7 million	$81.1 million	Deficit of $750 million will trigger solvency tax to make up the difference.	$450 - $500 million

2. <u>States Providing Extra 13-20 Weeks of ARRA-Funded Extended Benefits</u>

[18] U.S. General Accountability Office, *Unemployment Insurance: States Use of the 2002 Reed Act Distribution* (GAO-03-496, March 2003), at page 35.

The ARRA continued the temporary program of Emergency Unemployment Compensation (EUC) through to December 2009, thus providing 20 to 33 weeks of federally-funded benefits to those workers who exhaust their state assistance. In addition, the ARRA provided full federal funding for the permanent program of Extended Benefits (EB). The EB program, which is normally paid for 50 percent by the states, provides an extra 13 to 20 weeks of assistance.

Given the record rates of long-term unemployment, an estimated 2.5 million workers will exhaust their EUC benefits in 2009 (Table 2) after searching for work without success for more than a year. However, with the help of the EB program, over 2 million workers may qualify this year for an additional 13 to 20 weeks of benefits just in time to fill the hole left by the exhaustion of their EUC benefits (Table 2). While most of these workers will collect EB automatically, over 500,000 workers will not unless certain states with especially high unemployment do not take up a federal option to liberalize their EB program.

The additional weeks of EB, paid for in full by the ARRA, are available to those states that "trigger on" the program. One of EB's major flaws is the qualifying threshold level of unemployment, which is based on a formula that is often difficult for many states to meet, even when the state is experiencing extremely high levels of unemployment. Rather than employ the regular unemployment rate published monthly by the Bureau of Labor Statistics, EB is based on a formula called the "insured unemployment rate" (IUR). The IUR measures the number of workers collecting state unemployment benefits as a percent of all those who are covered by the program. As a result of this formula, states that are more likely to pay regular benefits tend to qualify for EB, but those that pay fewer workers benefits routinely do not.

Currently, 22 states are eligible to receive EB because their IUR has reached the required 5-percent threshold due to the recent surge in state unemployment claims. That may sound like a reasonable number, but it is not when you consider that many of the states with the highest rates of unemployment in the country still do not qualify for EB under the IUR.[19]

Recognizing this serious limitation, Congress amended the program in the 1990s to allow states to also provide 13 weeks of EB when their regular unemployment rate (i.e., the "total unemployment rate (TUR)") exceeds 6.5 percent. When the TUR exceeds 8 percent, states can pay 20 weeks of EB. To take advantage of the option, states must normally change their state laws, although DOL recently authorized Kentucky to enact emergency regulations doing so. Under the ARRA, states are free to also sunset their laws to avoid having to pay EB benefits after December 2009 in the event that the federal-sharing provision is not reauthorized.

Since the ARRA was enacted, another seven states (plus the District of Columbia) have adopted the optional EB formula (California, Georgia, Kentucky, Maine, Michigan, Nevada, Ohio) together with the sunset provision. As a result, over 750,000 workers will collect additional weeks of EB (Table 2). Except for Maine, all the other states will be providing 20

[19] These states include Alabama (7.6 percent), Arizona (7 percent), Florida (8.6 percent), Georgia (8.4 percent), Kentucky (8.5 percent), Mississippi (8.5 percent), Missouri (7.8 percent), New York (7.1 percent), Ohio (8.6 percent), and Tennessee (8.4 percent).

weeks of EB benefits funded by the ARRA because their unemployment rate has reached the required 8-percent threshold.

That's the good news, all thanks to the ARRA's federal-sharing provision. The bad news is that many high unemployment states have still not taken up the EB option, even though the largest contingent of workers exhausting the EUC benefits are doing so in April. Several states are well positioned to adopt the necessary state law (Arizona, New York, Tennessee). However, many others have failed to move forward to enact the EB reform, including Alabama, Colorado, Delaware, Florida, Missouri, and Mississippi.

If these states fail to do so, nearly 300,000 workers will be left struggling without benefits despite the generous federal funding provisions of the ARRA (Table 2). In addition, Indiana (unemployment rate of 10 percent) and South Carolina (unemployment rate of 11.4 percent) should be singled out for failing to adopt the optional state law allowing their workers to collect 20 weeks of EB benefits, not just the current 13 weeks.

The immediate challenge is to ensure that all those who should qualify for EB are able to collect their maximize EB benefits before thousands more families lose their homes and end up destitute through no fault of their own. Before the end of the year, Congress should take a serious look at the EB program and the many extreme restrictions that nearly gutted the program in the 1980s. When time comes for Congress and the Obama Administration to revisit the EUC and EB extensions later this year, unemployment will surely be higher than it is today. Thus, more assistance may well be needed to help struggling families cope with the devastating unemployment crisis.

3. The ARRA Significantly Increases the Purchasing Power of Jobless Benefits

Finally, the ARRA provided the nation's unemployed families with relief against the limited purchasing power of unemployment benefits by increasing the weekly benefits by $25 and suspending the federal tax on benefits (up to the first $2,400). These significant reforms go a long way to help workers make ends meet as they struggle to pay the bills and navigate the high cost of living for most basic goods and services.

While most experts have called for unemployment benefits to replace at least 50 percent of each worker's lost earnings,[20] benefits now average $300 a week, thus replacing only 34.8 percent of the average worker's weekly wage. In a dozen states, workers have to get by on an average of less than $250 a week, often because their states do not index the benefits to reflect the cost of living. The ARRA's increase in benefits represents an extra $100 a month, or an 8-percent increase in the purchasing power of the average worker's benefits.

NELP estimates (Table 3) that nearly 20 million workers will receive the increase in benefits provided by the ARRA, which separately takes into account those workers collecting regular state benefits in 2009 and those receiving either EUC or EB. The added $25 in weekly benefits also gives a major boost those communities hardest hit by unemployment, totaling

[20] Advisory Council on Unemployment Compensation, *Collected Findings and Recommendations: 1994-1996*, Recommendation 1995-7.

about $8.6 billion (Table 3) in 2009 not counting the multiplier effect when the benefits start circulating in the economy.

The ARRA's provision suspending the federal tax on the first $2400 of unemployment benefits was also welcome news to about 10 million families who can now stretch out their finances rather than face the prospect of paying federal taxes after taking a big hit to their income. The misguided decision to fully tax unemployment benefits came in 1987, during the same period when Congress and the Reagan Administration slashed nation's unemployment insurance safety net, including Extended Benefits and Disaster Unemployment Assistance programs.

Before the end of the year, Congress and the Obama Administration should seriously consider proposals to further increase the purchasing power of state and federal jobless benefits and permanently phase-out the federal tax on jobless benefits.

* * *

Chairman McDermott, thank you again for this opportunity to testify to the impact of the historic unemployment insurance reforms made possible by the ARRA. These are the toughest of times for unemployed workers and their families. However, with your inspiring dedication to their plight, and the continued support of President Obama and the leaders of the House and Senate, these families can now be assured that their voices will be heard in the halls of Congress and that the unemployment system will be better prepared to meet the challenges of the 21st Century.

Table 1: Status of State Legislation Implementing the ARRA's Unemployment Insurance Incentive Reforms

April 21, 2009

State	Legislation Enacted/Passed Legislature	Legislation Passed One Chamber or Legislative Committee	Legislation Introduced	Proposals Under Development
Alabama		X (Senate Committee)		
Alaska	X (Passed Legislature)			
Arizona			X	
Arkansas	X (Enacted)			
California	X (Enacted)			
Colorado		X (Senate Committee)		
Connecticut	X (Enacted)			
Delaware				X
District of Columbia				X
Florida		X (Senate Committee)		
Georgia	X (Passed Legislature)			
Hawaii		X (In Conference)		
Idaho		X (Passedl House)		
Illinois				X
Indiana				
Iowa	X (Enacted)			
Kansas		X (Passed House)		
Kentucky				X (Commission)
Louisiana				X
Maine	X (Enacted)			
Maryland				
Massachusetts				X
Michigan			X	
Minnesota	X (Enacted)			
Mississippi				X
Missouri				
Montana			X	
Nebraska				X
Nevada	X (Enacted)			
New Hampshire		X (Passed House)		
New Jersey	X (Enacted)			
New Mexico				X
New York			X	
North Carolina				X
North Dakota				X
Ohio				X
Oklahoma		X (House Committee)		
Oregon	X (Enacted)			
Pennsylvania				X
Rhode Island				X
South Carolina			X	
South Dakota	X (Enacted)			
Tennessee			X	
Texas		X (Passed Senate)		
Utah			X (Commission)	
Vermont				X
Virginia			X (House Disapproved)	
Washington			X	
West Virginia	X (Enacted)			
Wisconsin				X
Wyoming				
Totals	*13*	*9*	*9*	*16*

Table 2: Estimated Numbers Exhausting Federal Emergency Unemployment Compensation (EUC) & Eligible to Receive Extra 13-20 Weeks of Extended Benefits (EB)

April 21, 2009

State	Workers Exhausting EUC (January - December 2009)	Workers Eligible to Receive EB	Additional Workers Eligible to Receive 13 Weeks of EB with Optional State Law	Additional Workers Eligible to Receive 20 Weeks of EB with Optional State Law
Alabama	26,111		26,111	
Alaska	10,062	10,062		
Arizona	34,239		34,239	
Arkansas	20,237	20,237		
California	381,472	381,472		
Colorado	22,344		22,344	
Connecticut	33,759	33,759		
Delaware	5,198		5,198	
District of Columbia	6,106	6,106		
Florida	187,550			187,550
Georgia*	90,934	90,934		
Hawaii	9,709			
Idaho	12,206	12,206		
Illinois	105,500	60,725		
Indiana	67,601	67,601		67,601
Iowa	15,550			
Kansas	23,331			
Kentucky	22,157	22,157		
Louisiana	26,174			
Maine	7,211	7,211		
Maryland	23,552			
Massachusetts	60,598	60,598		
Michigan	127,609	127,609		
Minnesota	40,352	40,352		
Mississippi	16,490			16,490
Missouri	34,479		34,479	
Montana	5,913	5,913		
Nebraska	12,953			
Nevada	32,750	32,750		
New Hampshire	6,168			
New Jersey	116,018	116,018		
New Mexico	13,874			
New York	141,053		141,053	
North Carolina	104,422	104,422		
North Dakota	4,964			
Ohio	96,790	96,790		
Oklahoma	16,699			
Oregon	37,547	37,547		
Pennsylvania	125,150	125,150		
Rhode Island	12,882	12,882		
South Carolina	48,251	48,251		48,251
South Dakota	1,167			
Tennessee	47,427			47,427
Texas	80,463			
Utah	15,533			
Vermont	3,681	3,681		
Virginia	47,218			
Washington	40,171	40,171		
West Virginia	5,355			
Wisconsin	60,365	60,365		
Wyoming	2,625			
United States	*2,489,969*	*1,624,968*	*263,423*	*367,319*

Table 3: State Impact of the ARRA's $25 Weekly Benefit Increase

April 21, 2009

State	Total Recipients of State & Federal Benefits Collecting $25 Increase (2009)	Total Added Jobless Benefits
Alabama	243,697	$88,031,139
Alaska	84,660	$35,569,397
Arizona	236,890	$108,457,218
Arkansas	213,838	$84,364,939
California	2,775,823	$1,349,730,589
Colorado	184,294	$79,032,068
Connecticut	302,795	$130,186,350
Delaware	52,038	$24,260,431
District of Columbia	44,884	$25,823,996
Florida	941,057	$420,110,597
Georgia	651,409	$262,475,447
Hawaii	56,949	$19,927,404
Idaho	120,326	$46,736,395
Illinois	930,930	$416,646,029
Indiana	533,722	$217,620,392
Iowa	193,208	$69,163,515
Kansas	120,954	$46,358,514
Kentucky	257,849	$102,343,130
Louisiana	131,465	$46,702,627
Maine	71,585	$30,528,658
Maryland	243,266	$106,545,093
Massachusetts	553,729	$252,146,499
Michigan	1,129,741	$488,217,839
Minnesota	360,308	$161,559,847
Mississippi	133,010	$51,628,647
Missouri	291,161	$121,774,625
Montana	55,942	$46,871,577
Nebraska	71,005	$22,499,008
Nevada	251,350	$109,037,587
New Hampshire	59,124	$19,994,794
New Jersey	842,423	$383,606,290
New Mexico	72,217	$28,952,803
New York	1,109,969	$493,260,967
North Carolina	766,773	$339,811,639
North Dakota	26,189	$7,820,753
Ohio	779,116	$328,397,568
Oklahoma	106,125	$37,630,103
Oregon	373,416	$160,372,620
Pennsylvania	1,167,153	$504,711,370
Puerto Rico	0	$108,716,172
Rhode Island	101,600	$46,591,113
South Carolina	356,569	$142,055,100
South Dakota	16,251	$4,379,506
Tennessee	375,387	$155,799,595
Texas	740,242	$318,121,209
Utah	75,694	$27,253,970
Vermont	52,184	$20,945,339
Virgin Islands	4,961	$2,363,757
Virginia	266,944	$88,260,594
Washington	437,009	$165,742,098
West Virginia	87,470	$33,231,844
Wisconsin	639,765	$244,097,461
Wyoming	22,851	$8,037,962
United States	*19,717,317*	*$8,634,504,181*

Chairman MCDERMOTT. Thank you for your testimony.

We now turn to Mr. Boustany to introduce our next witness.

Mr. BOUSTANY. Thank you, Mr. Chairman.

I would like to introduce Mr. Michael Mitternight. He is the owner and president of Factory Service Agency, and comes to us from Metairie, Louisiana.

I'm very pleased to have a small businessowner from Louisiana today before us, who can explain and give us some insight into Governor Jindal's decisions, and how Governor Jindal's decisions will ensure that taxes remain low so that our businesses can hire new workers.

Over Michael's career, he's worked in the public and private sectors. He is a retired member of the Louisiana Air National Guard. For the past 30 years, he's been involved in his family's small business, leading the Factory Service Agency, which grew from a $500,000 business in annual sales to over $2.3 million today, and currently has 13 employees, I believe.

Additionally, he's served on numerous boards and councils, focusing on small business issues and health issues, and has served in an advisory capacity to Governor Jindal. I appreciate the level of expertise that Michael is going to bring to this panel today and look forward to your testimony.

Sir, you may proceed.

Chairman MCDERMOTT. Mr. Mitternight.

STATEMENT OF MICHAEL A. MITTERNIGHT, OWNER AND PRESIDENT, FACTORY SERVICE AGENCY, INC., METAIRIE, LOUISIANA

Mr. MITTERNIGHT. Chairman McDermott and Ranking Member Linder and Members of the Subcommittee, Representative Boustany, thank you for the opportunity to testify today with respect to the unemployment insurance provisions in the American Recovery and Reinvestment Act of 2009.

I am Mike Mitternight, owner of a small business from Metairie, Louisiana, started in 1975 by my father-in-law. I joined him in 1978, bought him out in 1996, and have been able to grow the business over these years.

My testimony today will focus on the UI provisions of the Recovery Act as they affect employers in the near term and in the years to come. I'm testifying on behalf of not only myself, but the Louisiana Association of Business and Industry and the National Federation of Independent Businesses, specifically in Louisiana.

As an employer in Louisiana responsible for meeting payroll, I'm well aware of the bottom line costs associated with employing workers. I strive to assure that my employees are fairly compensated, but as we all know, my ability to maintain my employment levels and hire new workers depends on whether revenues exceed costs. Payroll costs, including unemployment insurance, are a significant part of the cost of doing business.

Employers pay the taxes that fund the Federal and State unemployment insurance system. We pay Federal unemployment tax, the FUTA, and we also pay the State unemployment insurance tax, or SUTA.

State taxes are experience rated. Unlike the flat FUTA tax, if I'm able to operate my business without my employees becoming unemployed, my unemployment insurance rates go down. The FUTA and SUTA tax is paid solely by employers. There's no payroll withholding from employee wages for the FUTA or SUTA tax, and I have no choice as an employer but to pay these taxes.

Just to set the record straight, the Federal-State unemployment insurance system is paid for by employers and the cost of this Federal-State system is a bottom line cost that directly impacts my ability, and the ability of all employers, to retain their employees and increase employment.

Enactment of the UI provisions of the Recovery Act earlier this year has so far had no discernible positive impact on my business. A number of the features of this legislation are likely to negatively impact my bottom line, in my opinion.

The additional weeks of benefits and the additional $25 per week payment make it more difficult to attract employees from the ranks of those who may be unemployed, even if they have the experience needed to perform the work available at my company.

They also make it more likely that unemployed workers will exhaust their regular State unemployment compensation benefits in order to obtain maximum unemployment compensation. We've heard a lot of discussion about that issue already.

The so-called UI modernization provisions, for which incentive funds would be distributed to States choosing to enact them, would also have a series of negative impacts on employers, making it more difficult to maintain employment levels or hire employees.

First of all, I should note that, in the view of Louisiana's employers, the $7 billion that has been reserved for incentive funding is not a gift from the Federal Government. The financing for the $7 billion comes from the Federal unemployment account, which is exclusively funded by the FUTA tax paid by employers.

In our view, since the FUTA funds being used for the special distribution are employer—paid funds, they should be distributed back to Louisiana without adding special conditions.

Some have argued that Louisiana employers could receive the benefit of their own dollars if only the State legislature would pass and the Governor would support legislation to meet the conditions set forth in the UI modernization provisions.

It is important to remember that Congress made it quite clear that the changes to Louisiana's UI law must be permanent, and that's the issue that I think we have been trying to address today. Employers have a serious concern about that word "permanent" in the law—it's not subject to discontinuation or to be sunsetted, as we've heard today—in order to obtain the State's share of the distribution.

So, the cost of these changes is something that Louisiana employers feel they will be responsible for and will be having to deal with for a long time to come. There are a number of reasons why that would be a bad deal for us.

The estimated cost of the additional State unemployment compensation benefits that would be charged to employers and the Louisiana unemployment trust fund resulting from enactment of an alternative base period requirement exceeds the one-time incentive distribution which is being offered.

There are significant administrative costs to employers, as well as the State, associated with the transition and long-term administration of an alternative base period. I know there's supplemental pay for that, but we feel that the cost is going to far exceed that allocation.

Decisions about benefit eligibility and amounts along with State unemployment taxes have been made in the UI system at the State level for decades, and they should continue to be made at the State level, based on State-specific factors, including industrial mix, unemployment claims data, State tax policy, and consideration of the local and State economy.

A number of the UI modernization requirements for incentive distributions are inconsistent with the fundamentals of the Federal-State UI system, and they will still increase the costs to employers.

The options for an employee to take extended paid leave to care for an ill or disabled family member, and the payment of a dependent dividend, although admirable in intent, should not be paid for through the UI fund. This is not a UI benefit. This is something that should be paid for elsewhere.

That's one of employers' main concerns about some of the options which they can choose from.

In closing, let me just ask, when reviewing the relevant facts with regard to this issue, that you please look through the eyes of one who has to sign the front of a paycheck, and not just the back.

Thank you.

[The statement of Mr. Mitternight follows:]

Statement of Mike Mitternight, Owner and President, Factory Service Agency, Inc., Metairie, Louisiana

Chairman McDermott, Ranking Member Linder, and Members of the Subcommittee on Income Security and Family Support, thank you for the opportunity to testify today with respect to the Unemployment Insurance Provisions in the American Recovery and Reinvestment Act of 2009.

I am Michael Mitternight, President and Owner of Factory Service Agency, Inc. in Metairie, Louisiana. Factory Service Agency is a small business, specializing in commercial air conditioning service and construction. The business was founded in 1975 by my Father-In-Law, Mr. E. Reid Powell. I joined him in 1978 and purchased the company from him in 1996. Since 1978, we have grown from a $500,000 per year business with 5 employees to a $2.3 million business with 11 employees.

My testimony today will focus on the provisions of the Recovery act as they affect employers in the near term and in the years to come. As an employer in Louisiana responsible for meeting payroll, I am very well aware of the bottom line costs associated with employing workers. I value the work performed by my employees and strive to assure that they are fairly compensated. As we all know, my ability to maintain employment levels and hire workers depends on whether revenue exceeds costs, and payroll costs, including unemployment insurance, are a significant part of my total cost of doing business.

As you know, employers pay the taxes that fund the Federal-State Unemployment Insurance system. We pay a Federal Unemployment Tax Act (FUTA) tax to cover the cost of Federal and State administration of the UI program, the Federal share of regular Federal extended benefits when they are triggered, and for loans to individual State unemployment insurance funds that are depleted. **No portion of the FUTA tax that is used to finance Federal unemployment compensation payments is paid by employees.** There is no payroll withholding from employee wages for the FUTA tax, and I have no choice as an employer but to pay these taxes.

Employers also pay the State unemployment insurance taxes (SUTA) to pay for State unemployment benefits. These taxes are experience rated, and unlike the flat FUTA tax, if I am able to operate without my employees becoming unemployed, my unemployment insurance tax rates go down. **No portion of the SUTA tax that is used to finance State unemployment benefits in Louisiana is paid by employees.** There is no payroll withholding from employee wages for the SUTA tax, and I have no choice as an employer but to pay these taxes.

So, just to be clear, the Federal-State unemployment insurance system operating in Louisiana is paid for by Louisiana employers, and the cost of this Federal-State system is a bottom line cost that directly impacts my ability, and the ability of all employers in Louisiana, to retain employees and increase employment.

The enactment of the UI provisions of the Recovery Act earlier this year has so far had no discernable positive impact on my business, and a number of the features of this legislation are likely to negatively affect my bottom line.

The additional weeks of special emergency unemployment compensation included in the bill and the additional $25 per week in additional benefits may have increased the cash provided to unemployed workers to help them pay credit card and other bills, but it has had no direct impact on additional orders for work for my business. These increased payments do, however, have other consequences for businesses seeking to hire workers.

The additional weeks of benefits and the additional $25 per week make it more difficult to attract employees from the ranks of the unemployed, even if they have the experience needed to perform the work available at my company. Take, for example, the individual who was laid off from a larger company because it could no longer afford to pay higher wages than I can offer. That individual may possess the work experience needed to perform work in the commercial air conditioning service, but the longer period of emergency unemployment compensation and the additional $25 per week reduces the difference between what that individual receives in unemployment benefits and the compensation I can afford to pay him.

As a result, it is more difficult for me to find individuals with the work experience I need because some of them would choose to stay on unemployment compensation longer, hoping for a higher paying job that may not come, instead of taking a job with my company. **In fact, the availability of additional weeks of unemployment compensation and the additional $25 per week makes it more likely that unemployed workers will exhaust their regular State unemployment benefits**, as they postpone an active search for work deciding not to accept job offers that become available during the claims period.

The increased duration of regular State unemployment benefits resulting from the Recovery Act provisions also increases benefit charges to Louisiana employers, increasing their unemployment tax rates for the following year and negatively impacting their bottom lines just at the time that there is a need to provide incentives for rehiring or hiring new employees. I understand that this increase in State unemployment claims resulting from additional weeks of Federal extended or emergency benefits has been recognized by the Congressional Budget Office. I can also tell you from experience that claimants who are close to exhausting regular State benefits, but are assured of additional weeks of extended benefits, will be more likely to exhaust State benefits that are charged to employers.

The so called "UI Modernization" provisions for which incentive funds would be distributed to States choosing to enact them would also have a series of negative impacts on employers, making it more difficult to maintain employment levels or hire employees.

First of all, I should note that, in the view of Louisiana's employers, the $7 billion that has been "reserved" for incentive funding is not a gift from the Federal Government. The financing for the $7 billion comes from the Federal Unemployment Account (FUA), which is exclusively funded by the FUTA tax paid by employers. In our view, since the FUTA funds being used for this special distribution are employer paid funds, they should be distributed back to Louisiana without special conditions. By requiring the enactment of certain provisions into our State UI law in exchange for this incentive distribution, Congress effectively limited the distribution to a select handful of States, not including Louisiana. Congress chose to take FUTA tax dollars that I and other employers in Louisiana paid and to send them to be used in the 19 or so other States that happen to already have alternative base period provisions in their State laws. The impact on Louisiana employers over time will likely be an increase in their FUTA taxes, again making it more difficult for them to retain employees or hire new ones.

Some have argued that Louisiana employers could receive the benefit of their own dollars if only the State legislature would pass and the Governor would support legislation to meet the conditions set forth in the "UI Modernization" provisions. It is important to remember that Congress made it quite clear that the changes to Louisiana's UI law must be "permanent" and not "subject to discontinuation" in order to obtain the State's share of the distribution. So, at the least, the cost of these changes is something that Louisiana employers will have to deal with for a long time. **There are a number of reasons why that would be a bad deal for us:**

1. **The estimated cost of the additional State unemployment compensation benefits that would be charged to employers and the Louisiana unemployment trust fund resulting from enactment of an alternative base period requirement exceeds the one-time incentive distribution being offered;**
2. **There are significant administrative costs to employers as well as the State associated with the transition and long term administration of an alternative base period provision that must be considered in determining the bottom line cost to employers;**
3. **Decisions about benefit eligibility and amounts along with State unemployment taxes have been made in the UI system at the State level for decades and should continue to be made at the State level based on State specific factors, including industrial mix, unemployment claims data, State tax policy and consideration of the local State economy;**
4. **A number of the "UI Modernization" requirements of incentive distributions are inconsistent with the fundamentals of the Federal-State UI system and would increase costs to employers.**

Part-time worker eligibility

Part-time workers already qualify for unemployment benefits in Louisiana. Unemployed workers qualify for benefits with as little as $1,200 in annual wages before becoming unemployed. Louisiana encourages unemployed workers to take part-time work during their unemployment by excluding partial earnings of the lesser of $50 or one-half of their weekly benefit amount when determining how much is to be paid in weekly benefits.

Partially unemployed workers must, however, be able to work, be available for work and be seeking suitable work. These requirements have been fundamental to the UI system for more than half a century.

The Recovery Act would require as a condition of receiving incentive funds that State law prohibit the denial of unemployment compensation under any provision relating to availability for work, active search for work, or refusal to accept work, solely because such an individual is seeking only part-time work as defined by the U.S. Secretary of Labor. Under this provision, the State would actually have to pay unemployment benefits to someone who refused full-time suitable work, and in some cases, such benefits would be charged against the very employer that offered that full-time work. This provision will not only increase benefit payments and charges to employers, but sends a signal to unemployed workers that they need not seek or be available for full-time work as a condition of receiving benefits.

We should be encouraging individuals to search and be available for full-time work instead of prohibiting a State from denying benefits when they refuse to do so. As a practical matter, the determination of appropriate work search, availability and suitability of work should be made on a case-by-case basis under guidelines set by the State. This should not be determined based on Federal dictates.

Quits For Compelling Family Reasons

In Louisiana, and in most States, an individual who quits employment without good cause in connection with the individual's work is disqualified from receiving unemployment compensation. This connection to the work and good cause standard is tied to the fact that unemployment benefits are charged to employers.

Unlike public assistance programs that determine eligibility for benefits that are paid from general revenue, there is an immediate charge and cost to employers when individuals are paid unemployment compensation. To pay unemployment benefits in such cases is inconsistent with the insurance principles inherent in the UI system and inequitably imposes costs on employers who are not at fault.

For example, the Recovery Act provision, as a condition of incentive payment, would prohibit a State from disqualifying an individual for separating from employment for the illness or disability of an immediate family member. The separation need not be related in any way to the work, and "illness" and "disability" have been defined by USDOL to mean a verified illness or disability which necessitates the care of the ill person for a period of time longer than the employer is willing to grant leave (paid or otherwise). This definition is so broad that it cries out for abuse.

If one of my employees requests leave for the sickness or disability of an immediate family member, the period of leave requested is longer than that permitted by company policy, and the individual then quits employment, there would be no disqualification from unemployment benefits and the benefits subsequently paid would be charged to my account and those of other base period employers. This would significantly increase benefit charges to employers and result in the payment of benefits to workers whose reason for unemployment is not connected to the work and has nothing to do with whether they became unemployed through no fault of their own.

Dependents' Allowances

Unemployment insurance is a program that provides temporary partial wage replacement to individuals who become unemployed through no fault of their own in connection with their employment. The partial wage replacement is intended to provide support on a temporary basis while the individual searches for suitable employment.

Louisiana and the vast majority of States do not have dependents' allowance provisions because the number of dependents has nothing to do with wage replacement and the addition of dependency add-on amounts results in individuals with dependents receiving higher wage replacement than those without dependents. It also seems to suggest that there is a single wage earner for a household when in recent decades a high percentage of households have more than one wage earner. In multiple wage earner households all wage earners who become unemployed may be able to qualify independently for unemployment benefits.

Unemployment insurance is not a family support program based on need. Again, it is an insurance program paid for by employers for the narrow purpose of providing temporary wage replacement for unemployed workers.

The Recovery Act would provide as a condition of incentive funding that a State provide at least $15 per dependent per week in addition to what would otherwise be provided in weekly benefits. If adopted, this would dramatically increase the amounts of benefits paid to unemployed workers with dependents and charged to employer accounts.

Such a provision would not only increase benefit costs but would create additional administrative costs for employers and the State associated with determining whether the claimant had dependents and the number of dependents. Such determinations are often complicated with child support obligation disputes and questions about the age, mental, and/or physical capacity of individuals claimed as dependents, and other issues.

Training Benefits

A very small number of States provide for additional unemployment compensation benefits during extended periods of training because it significantly increases costs to employers and the impact on the duration of unemployment benefits to the individuals and their return to employment varies considerably from State to State and depending on the training provided.

For example, under the Recovery Act provision if my company were to lay-off one of our employees due to lack of work and the individual exhausted 26 weeks of regular State unemployment compensation charged to our account, the individual would be entitled to an additional 26 weeks of benefits charged to my account as long as it was approved by the State, even if the training did not assist the individual in becoming re-employed.

There are training programs that may be effective in training and placing unemployed workers, but such decisions about unemployment eligibility and State approved training are much more appropriately left to the State and employers in the State.

Extended Unemployment Compensation Funding

Section 2005 of the Recovery Bill provided for 100% Federal reimbursement of regular extended unemployment compensation instead of the normal 50% reimbursement. I can certainly understand why employers in other States that have triggered on to extended unemployment compensation might favor not having their individual accounts charged for extended unemployment compensation payments.

However, in Louisiana we have a different policy concern that as other States, noting the availability of the 100% reimbursement provision choose to enact the optional lower trigger provision more weeks of extended unemployment compensation will be paid in other States depleting the extended unemployment compensation account which is financed by employers in all States paying the FUTA tax.

Because the unemployment rate is lower in Louisiana than in many other States, regular Federal extended unemployment compensation has not triggered "on" in Louisiana and as of April 12th at least would not trigger on even if the State were to enact the optional trigger provision.

As a result, employers in Louisiana are likely, due to the provisions of the Recovery Act, to have FUTA tax dollars paid by them directed to the payment of benefits in other States and the resulting depletion of balances in the extended unemployment compensation account and subsequent increases in their FUTA tax.

Mr. Chairman, there is still no such thing as a free lunch.

One need only look back to the experience of the 1970s and 1980s to observe the impact of significant increases in unemployment compensation payments on employer tax rates at the State and Federal level.

In response to significant extended unemployment compensation payout in the 1970s, the employer financed Federal accounts dedicated to paying these claims were depleted and Federal general revenue was advanced to cover the deficiency in funds. In 1976 the FUTA tax base was increased from $4,200 to $6,000 and the net FUTA tax rate was increased from 0.5% to 0.7%. In 1982 the FUTA tax base was increased from $6,000 to $7,000. The net Federal tax rate was increased from 0.7% to 0.8% on a "temporary" basis until general revenue funds that had been advanced to pay extended benefits were repaid. Although all general revenue advances were repaid in 1987, the "temporary" surtax to be paid by employers was continued and is scheduled to sunset again at the end of 2009.

Stresses on the Federal-State UI system in the past 16 months have not been experienced since the 1970s and early 1980s. We should look to the history of that period as some indication of what to expect in the coming years.

State UI claims increases and State legislation in the 1970s and 1980s resulted in significant State UI tax increases in addition to the FUTA tax increases in this period. As a point of comparison the national average State UI taxes for 1979 as compared to total wages was 1.284% and rose to 1.37% in 1984. The national average State UI taxes for 2007 were only 0.665% of total wages.

With none of the "UI Modernization" expansion provisions included in the Recovery Act and no additional Federal reimbursement we were already headed for a period in the next two years in which State UI taxes on average are likely to more than double for many employers, and employers with lower experience rates will suffer even greater increases.

Again, employer taxes are the exclusive source of the funds in the FUA. The FUA is the fund that was tapped for this special distribution. The laws that would have to be enacted in order for Louisiana to receive the distribution from the FUA change the fundamental purpose of our Federal/State UC system. Any attempt to enact the provisions necessary to receive the monies authorized from the FUA constitutes a major break with the understanding that Louisiana's employers had regarding the use of those Federal taxes when they paid them.

Louisiana's employers have no quarrel with providing benefits to persons with a demonstrated attachment to the workforce, whose unemployment arose from factors within the workplace, and whose attempts to become re-employed are genuine and aggressive. However, they will not accept providing benefits to persons not truly connected to the workforce, who leave their employment for personal reasons, or who choose to restrict their re-employment options. That is what the expansions within the Act would do.

It is time to pause and consider the negative impact that the Recovery Act's UI provisions will have on employer taxes, which will soon be felt on their bottom lines. Please consider instead making revisions that may actually reduce cost and enable the country to save the jobs we still have and to create new jobs.

Chairman MCDERMOTT. Thank you for your testimony.

We now have a witness who actually identifies herself as an economist, and we're not going to hold that against you, in spite of what people have said about economists up here.

Heidi Shierholz is the economist for the Economic Policy Institute.

Dr. Shierholz.

STATEMENT OF HEIDI SHIERHOLZ, PH.D., ECONOMIST, ECONOMIC POLICY INSTITUTE

Dr. SHIERHOLZ. Good morning, Chairman McDermott, Ranking Member Linder, and Members of the Subcommittee. I appreciate the opportunity to appear before you today to share my views.

Next month, the current economic downturn will become the longest recession since the Great Depression. This recession is now in its 16th month, and the labor market is still shedding over 600,000 jobs per month.

The depth of this crisis, a crisis that will, before it's over, be the longest and steepest economic downturn in over six decades, highlights the need for unprecedented levels of assistance for the millions of hardworking, productive Americans who are unable to find the work they need to maintain the living standards of their families.

Since the start of the recession in December 2007, the unemployment rate has risen from 4.9 percent to 8.5 percent. The increase in unemployment over this time is the largest 15-month percentage point increase in unemployment since 1975. In particular, it exceeds the increase in unemployment experienced during the deep recession of the early 1980s.

There are now 13.2 million unemployed workers in this country, and the widespread job loss shows no signs of slowing down. On average, 23,000 workers were added to the jobless rolls every single day of the first quarter of 2009.

With the severity and duration of this recession, long-term unemployment, which is defined as being unemployed for more than 6 months, is growing even faster. In March, 3.2 million American workers, nearly one out of every four of the unemployed, had been unable to find a job for over half a year.

This figure shows the percent of the labor force unemployed for 6 months or more, currently at a 25-year high.

A primary reason workers are getting stuck in unemployment is the dramatic decline in job openings. At the start of the recession in December 2007, there were 4.3 million job openings. In February of this year, there were 3 million, a decline of over 30 percent.

As the number of unemployed has continued to rise, this means that there are more and more unemployed workers for every job opening. This figure shows that, in February, there were over four unemployed workers for every available job, a huge increase since the start of the recession, when there were only 1.7 job seekers per job opening.

As I mentioned, there are currently 13.2 million unemployed workers in this country, but that number, large as it is, actually understates labor market weakness, because it only counts jobless workers as being unemployed if they are actively seeking work.

Marginally attached workers are defined as jobless workers who want a job, they're available to work, they have searched for work in the recent past, but they are not currently actively seeking work, so they're not counted as officially unemployed.

Since the start of the recession, the number of marginally attached workers has increased by 64 percent, to 2.2 million. If these workers were counted as unemployed, the unemployed rate in March would have been 9.8 percent.

So, the next question is, what can we expect going forward?

Note in this plot, this is the unemployment plot, note in this plot that after the—the shaded bars there denote recessions, and what jumps out here is that, after the end of official recessions, the unemployment rate keeps rising.

So, after the end of both the recession of the early 1990s and the recession of the early 2000s, the unemployment rate continued to rise for over a year, and unemployment didn't get back down to its pre-recession levels for an additional four years.

So, we can expect the unemployment rate to continue to rise for at least the next year, reaching 9 percent by this summer, 9.5 percent by the fourth quarter of this year, and crossing into double digits early next year.

With double-digit unemployment rates, we could expect the number of long-term unemployed workers to climb from its current level of 3.2 million to well over 4 million.

The unemployment rate will likely average around 9.5 percent for 2010 and will remain elevated for years to come, continuing the hardship faced by America's working families.

The unemployment insurance provisions in the Recovery Act are exactly the kind of assistance that working families need, and it happens that they are also exactly what the macro-economy needs.

When an economy is floundering in a recession, even with interest rates near zero, as they are today, policy makers are essentially left with one tool in their kit for fighting recession: Government spending to boost demand. This can happen either through tax cuts or through Government spending the money itself.

So, while there is variation, which was discussed before, in sort of bang-for-the-buck estimates of different kinds of stimulus spending, among economists, there is a generally accepted hierarchy of the effectiveness of stimulus spending, and I will show you in this plot, shows that hierarchy along with the economic benefit for each dollar spent as estimated by Mark Zandi of Moody'sEconomy.com.

So, this hierarchy shows that, aside from food stamps, Government spending on extending unemployment insurance provides the most economic benefit to the economy of any form of stimulus spending.

The reason unemployment insurance is such good stimulus is that it gets money to people who are most likely to have depleted their savings and to tend to have no choice but to quickly spend essentially every dollar they receive on necessities found in their local economy.

In other words, virtually every dollar spent on extending unemployment insurance goes directly and immediately toward the purchase of local goods and services. Extending and expanding unemployment insurance benefits is one of the most efficient things lawmakers have done to help pull the macro-economy out of its nose-dive.

The United States is currently facing what will ultimately be the longest and steepest downturn since the Great Depression. This crisis calls for unprecedented levels of assistance for the millions of American workers who have little hope of finding a job in this dramatically weakened labor market.

Fortunately, assisting workers most hurt by the downturn is also excellent economic policy, since extending unemployment insurance is one of the most efficient forms of stimulus spending available.

It will take years for the U.S. labor market to fully recover, but the unemployment insurance provisions in the Recovery Act take an important step toward keeping the families of eligible unemployed workers afloat, while at the same time, providing the economy with much-needed stimulus.

Thank you, and I'm more than happy to answer any questions you may have.

[The statement of Dr. Shierholz follows:]

Statement of Heidi Shierholz, Ph. D., Economist, Economic Policy Institute

Good Morning Chairman McDermott, Ranking Member Linder, and distinguished Members of the Subcommittee on Income Security and Family Support. My name is Heidi Shierholz and I am a labor market economist at the Economic Policy Institute; I appreciate the opportunity to appear before you today to share my views.

Next month, the current economic downturn will become the longest recession since the Great Depression. The ten post-war recessions prior to this one have averaged 10.4 months in length, with the longest being 16 months. The current recession is now in its 16th month, and the labor market is still shedding over 600,000 jobs a month. The impact of this recession on the labor market is documented below. The depth of the crisis—a crisis that will, before it's over, be the longest and steepest economic downturn since World War II—highlights the need for unprecedented levels of assistance for the millions of hard-working, productive Americans who are unable to find the work they need to maintain the living standards of their families. Furthermore, as documented below, assistance to those most hurt by the downturn—specifically, the unemployment insurance provisions in the recovery act—is also excellent economic policy, since these are the families most likely to immediately spend that money on necessities found in their local economy, which is precisely the kind of stimulus that is needed to help pull the U.S. economy out of its nosedive.

The Unemployment Crisis

Since the start of the recession in December 2007, the unemployment rate has increased from 4.9% to 8.5%. The increase in unemployment from December 2007 to March 2009 is the largest 15-month percentage point increase in the unemployment rate since 1975—in particular, it surpasses the increase in unemployment experienced during the deep recession of the early 1980s. There are now 13.2 million unemployed workers in this country—5.6 million more than there were at the beginning of the recession—and the widespread job loss shows no signs of slowing down. On average, 23,000 workers were added to the jobless rolls *every single day* of the first quarter of 2009. Figure 1 shows the unemployment rate over the last 20 years; the dramatic increase of the current recession is clear.

Long-term unemployment

With the severity and duration of this recession, long-term unemployment—defined as being unemployed for more than six months—is growing even faster. In March, 3.2 million American workers—nearly one out of every four of the unemployed—had been unable to find a job for over half a year. Figure 2 shows the percent of the labor force unemployed for six months or more, currently at a twenty-five year high. The extension to unemployment insurance in the recovery act is a crucial lifeline to the families of the long-term unemployed.

Figure 1

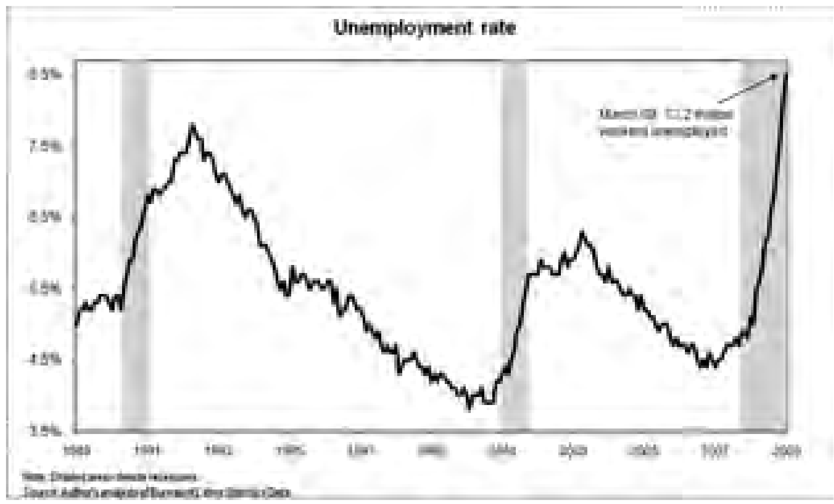
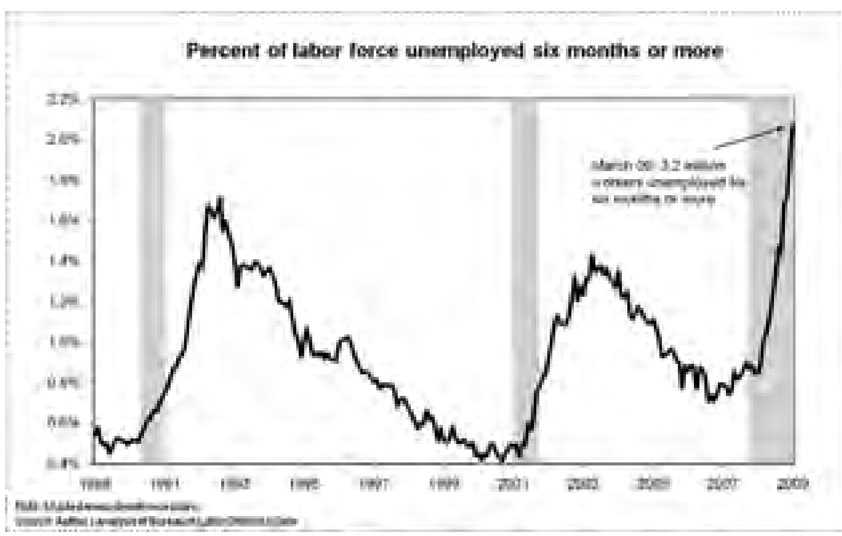
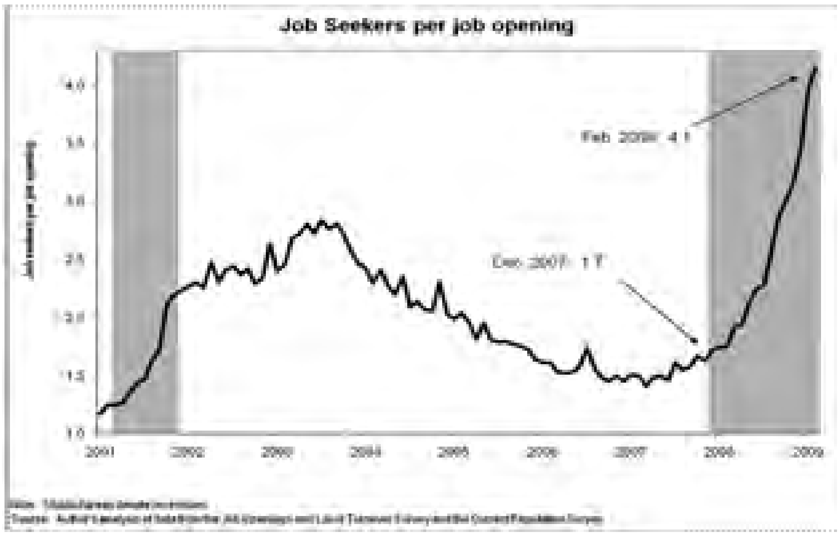


Figure 2



A primary reason workers are getting stuck in unemployment is the dramatically diminished number of job openings. At the start of the recession in December 2007, there were 4.3 million job openings; in February 2009 (the latest data available), there were 3 million, a decline of 31.4%. As the number of unemployed has continued to rise, this means that there are more and more unemployed workers for every job opening. In February, there were over four unemployed workers for every available job, almost two and a half times the number at the start of the recession. Figure 3 shows the number of unemployed workers per job opening since 2001 (the job openings data are only available since December 2000). The February value is nearly 50% higher than the highest value of the series prior to the current recession.

Figure 3



An important point about a recession this long and severe is that all subgroups of the labor market are experiencing substantial unemployment and, in particular, substantial long-term unemployment. The following chart shows unemployment and long-term unemployed for the first quarter of 2009 by selected demographic groups. The unemployment rate shows that while young workers, blue collar workers, and workers with lower levels of schooling are seeing the highest unemployment rates, all groups are experiencing extensive unemployment. In fact, as the second column of data in the chart shows, older workers, white collar workers, and workers with higher levels of education are disproportionately affected by long-term unemployment. In other words, while more educated and experienced workers are less likely to become unemployed, they are more likely to get stuck in unemployment for long periods if they do lose their jobs. No subgroups of the labor market are sheltered from an economic downturn as deep as the recession this country is currently facing.

Unemployment and Long-term unemployment, 2009Q1

		Unemployment rate	Share of unemployed who have been jobless for over six months
	All	8.8%	22.5%
Age	16–24	16.1%	20.0%
	25–54	8.1%	22.3%
	55 +	6.2%	28.2%
Occupation	Blue collar	14.9%	19.4%
	Service	9.2%	22.7%
	White collar	5.6%	24.1%
Education	High school or less	13.0%	22.3%
	Some college	7.8%	22.3%
	Bachelor's degree or higher	4.4%	23.6%

Note: Data not seasonally adjusted

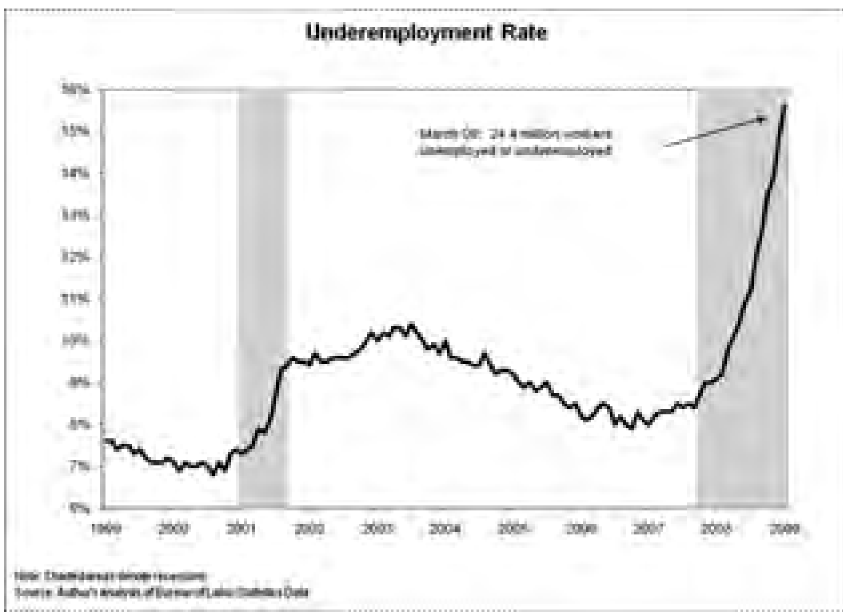
Source: Author's analysis of Current Population Survey microdata

Underemployment

As mentioned above, there are currently 13.2 million unemployed workers in this country. That number, large as it is, actually understates labor market weakness because it only counts jobless workers as being officially unemployed if they have actively sought work in the last month. Thus, to the extent that jobless workers have stopped looking for work (or never started) because they felt they would not be able to secure meaningful work given current labor market conditions, the official unemployment rate understates labor market weakness. Since the start of the recession, the number of "marginally attached" workers has increased by 64%, from 1.3 million to 2.2 million. Marginally attached workers are defined as jobless workers who want to work, are available to work, have looked for work in the recent past, but are not currently actively seeking a job, and are therefore not counted as officially unemployed. If these workers were counted as unemployed, the unemployment rate in March would have been 9.8%.

Another aspect of employment during recessions is that when employers need to cut labor costs, they cut not just entire jobs, they also cut hours for workers who keep their jobs. There are currently over nine million "involuntary" part-time workers in this country—workers who want full-time jobs but are unable to get the hours they need. This is nearly double the pre-recession number of involuntary part-timers. An important comprehensive measure of slack in the labor market is the "underemployment rate", which includes not just unemployed workers, but also marginally attached and involuntary part-time workers. In March, the underemployment rate was 15.6%. This means that 24.4 million workers—one in six workers in this country—are either unemployed or underemployed. Figure 4 shows underemployment over the last 10 years (data on underemployment as currently measured are only available since the mid-nineties).

Figure 4



Over four million long-term unemployed by early next year

After the official end of the recession of the early nineties, the unemployment rate continued to rise for more than a year, and unemployment didn't return to its pre-recession levels for another four years after that. After the end of the recession of 2001, the unemployment rate continued to rise for a year and a half, and unemployment didn't return to near pre-recession levels for an additional three and a half years. If current laws and policies governing Federal spending and taxes do not change (specifically, if we do not see substantial additional stimulus) we can expect the unemployment rate to continue to rise for *at least* the next year, reaching 9% by summer, 9.5% for the fourth quarter of this year, and crossing into double-digits sometime early next year. With double-digit unemployment rates, we could expect the number of long-term unemployed workers to climb from its current level of 3.2 million to well over four million. The unemployment rate will likely average 9.5% for 2010, and remain elevated for years to come, continuing the hardship faced by America's working families.

Benefits to the macroeconomy of unemployment insurance

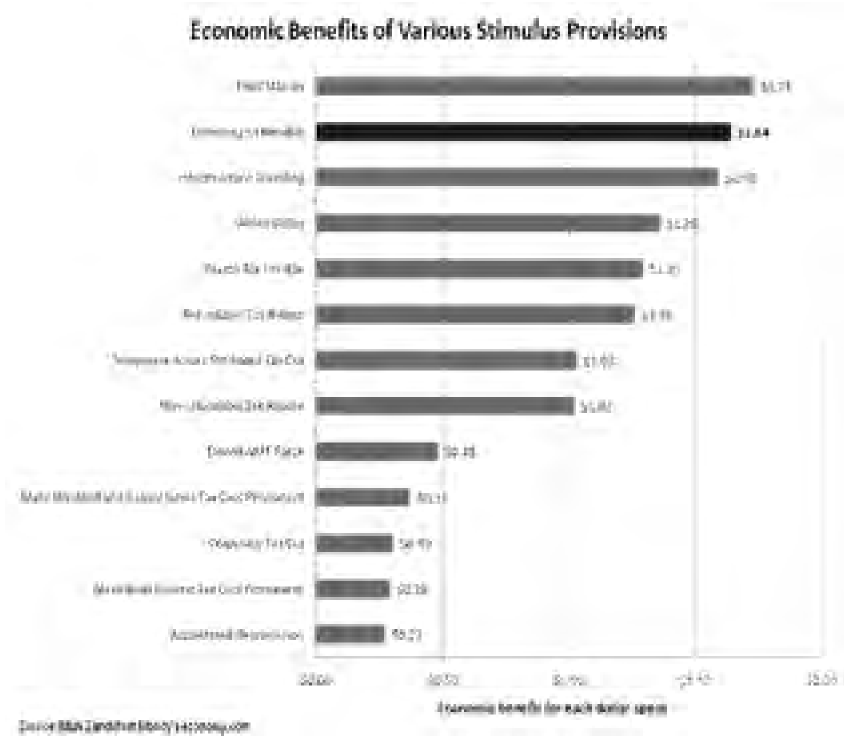
When an economy is floundering in a recession even with interest rates near zero as they are today, policy makers are essentially left with one tool in their kit for fighting recessions—direct Government spending to boost demand. This can happen either through tax cuts—Government giving money back to households to boost their spending—or through the Government spending the money itself. While there is variation in "bang-for-the-buck" estimates of different types of stimulus spending, among economists there is a generally accepted hierarchy of the economic benefits of various stimulus provisions. Figure 5 shows that hierarchy, along with the economic benefit for each dollar spent as estimated by Mark Zandi of Moody's Economy.com. The hierarchy shows that aside from food stamps, Government spending on extending unemployment insurance provides the most economic benefit to the economy of any form of stimulus spending. In other words, *extending and expanding unemployment insurance benefits is one of the most efficient things the Government can do to help pull the macroeconomy out of its nosedive*. The reason extending unemployment insurance is such good stimulus is that it gets money to people who are the most likely to have depleted their savings, and who tend to have no choice but to quickly spend essentially every dollar they receive on necessities found in their local economy. In other words, virtually every dollar spent on extending unemployment insurance benefits goes directly, and immediately, towards the purchase of local goods and services, providing an extremely efficient demand boost. The CBO estimates that 40 billion dollars will be spent on the unemployment insurance provisions in the recovery act. Using Zandi's estimate of $1.64 for the economic impact of one dollar of expanded unemployment insurance benefits, that translates into 66 billion dollars of stimulus to the U.S. economy. Not only is extending and expanding UI benefits the right thing to do for the people hurt most by this economic downturn, it is also excellent economic policy.

Conclusion

The United States is currently facing what will ultimately be the longest and steepest economic downturn since the Great Depression. There are currently 13.2 million unemployed American workers, nearly a quarter of whom have been unemployed for at least six months, and the economy is still losing 600,000 jobs a month. This recession calls for unprecedented levels of assistance for the millions of American workers who have little hope of finding a job in this dramatically weakened labor market. Fortunately, assisting workers most hurt by the downturn is also excellent economic policy, since extending and expanding unemployment insurance is one of the most efficient forms of stimulus spending available. It will takes years for the U.S. labor market to fully recover, but the unemployment insurance provisions in the recovery act take an important step towards keeping the families of eligible unemployed workers afloat, while at the same time providing the economy with much-needed stimulus.

Thank you and I am more than happy to answer any questions you may have.

Figure 5:



Chairman MCDERMOTT. Thank you all for your testimony.

I was going to ask some other questions, but Dr. Shierholz, you got me, because you're really talking about the future.

Everyone is saying, "Well, the stock market is up today, it's up 50 points, or last week it was up 125 points, or whatever, the recession is over."

I know that people want to believe that spring is here and that the daffodils indicate that there will be no more snow, but what I try to understand is, when do you think you can begin to say the recession is over, and what will be the signs that will show that that's happening?

It looks like there's a lag——

Dr. SHIERHOLZ. That's right.

Chairman MCDERMOTT [continuing]. In unemployment. So, where does one——

Dr. SHIERHOLZ. This is a good question.

So, here's what happens. Important background to this question is that the population is growing all the time, and so we actually have to add jobs every month just to keep up with population growth.

So, just to tread water, just to keep unemployment from rising in the face of an ever-expanding workforce, the economy has to add 127,000 jobs every month.

So, the economy output, the stock market, other kind of measures may start, will start growing first, but in order to have unemployment actually decline, we have to see really strong growth. We actually have to add at least 127,000 jobs every month to keep unemployment from continuing to rise.

Just like you said, that's what we've seen in recent recessions, unemployment continues to rise, because while the economy starts growing, it just doesn't immediately get growing fast enough.

Those will be the first signs. The first sign we'll see is maybe a pickup in construction, in durable goods manufacturing, when we start to see lessening of the job losses, maybe we start to add some jobs in those areas, we will start to be able to say a recovery has taken hold.

The macro-economy will start to look better before your constituents, before Main Street feel better.

Chairman MCDERMOTT. What is it that—or what kind of predictability is there in your saying it's going to be out there for all of next year, or all of this year and into next year, well into next year?

Dr. SHIERHOLZ. So, one of the things we can do is look to past recessions, and we know that, even if we had the output start growing, if all of a sudden we had GDP growing, everything was fixed in the economy, if the unemployment rate grew in the same way it grew after the end of the last two recessions, it would still reach 9.8 percent.

We know that right now GDP is growing way below trend, we are still losing 20,000 jobs a day, so if Government spending and taxes do not change, we can definitely expect that it will go up into double digits.

Chairman MCDERMOTT. Let me switch just a minute to Mr. Emsellem.

We've heard people suggest here that if we don't pay—I guess the Governor of Alabama was quoted as saying that he didn't want to add unemployment benefits because that would somehow say to potential employers who might want to move into Alabama that, "There's a lot of benefits you're going to have to pay, and in our State, you won't have to pay those benefits."

To what extent is there any evidence that a safety net is viewed as a negative in the decision to move to a State, or to an area, to bring a new plan?

Mr. EMSELLEM. I'm not aware of any empirical evidence that testifies to that. It's an argument that's talked about a lot, that actually influences a lot of State legislatures, because States are in such serious competition with each other, especially neighboring States, over bringing business in.

Your State, Washington, my State, California, compete at a very high level to bring very serious quality jobs to their communities, and those States are providing really quality benefits to their workers.

So, I think the argument, and Mr. Uhalde, I think, made the point well, is that the more that you invest in the workforce, the more that you invest in programs like unemployment insurance, the better workers feel about making the shift to different States, and that really, I think, in the long term, is what helps the economy.

Chairman MCDERMOTT. Thank you.

Mr. Linder will inquire.

Mr. LINDER. Thank you, Mr. Chairman.

I would like to take just a little time to respond to some of the comments made in the last series of questions.

Our opposition, our concern about these programs is not because we're mean-spirited, hard-hearted, and cruel. It's that we think it's not helping those who need help.

I'll give you some quotes from people who are not recognized as reliable Republican supporters.

Larry Summers, Secretary of the Treasury in the Clinton Administration, said: "To fully understand unemployment, we must consider the causes of record long-term unemployment. Empirical evidence shows that two causes are welfare payments and unemployment insurance."

He also said: "Unemployment insurance extends the time a person stays off the job."

Lawrence Katz, chief economist for the Department of Labor under the Clinton Administration, said: "Changes in the level of benefits and changes in potential length of benefits have substantial effects on the mean duration of unemployment of UI recipients."

He said: "This is a surprisingly large effect. There are large spikes in the escape rate from unemployment at 26 weeks and at 39 weeks for UI recipients, spikes of similar magnitude at 26 weeks and 39 weeks are not apparent for UI non-recipients."

"There are times that the expiration of unemployment benefits typically helps the economy, forcing people to find work eventually."

The Congressional Budget Office said: "Extending the duration of benefits or increasing their size means that at least some recipients may remain unemployed longer."

Those are not my feelings or quotes, those are observations by other people.

Dr. Shierholz, your organization, EPI, published a publication January 11th of last year, which said:

"Because the United States is either already in a recession or it's headed for one, policy makers need to act now to craft an effective economic stimulus package to spur growth in job creation. Without a stimulus of sufficient magnitude, the U.S. economy is likely to see a decline in growth or even a formal recession leading to higher unemployment, declining or stagnant wages, and a host of other economic problems."

"A package that provides $140 billion of stimulus would begin to reverse our economic course by creating an additional 1.4 to 1.7 million jobs."

As I recall, the package that we passed was $162 billion. How did we do? Did we create 1.4 to 1.7 million new jobs since last January, or did we lose 5 million?

Dr. SHIERHOLZ. We lost 5 million jobs since last January. The question is, how many would we have lost if we hadn't had that stimulus?

We know that those rebate checks are not the most effective kind of stimulus we can do, but they're not bad, because a refundable rebate gets money into the hands of people who are likely to spend it, though we do know that the evidence shows that at least a third of those rebate checks were saved, and so that reduces the amount of stimulus that goes into the economy.

This question that we discussed before, it's very difficult to say where the economy would have been without that, but we know it had an impact. We saw retail sales bump up around the time of those rebate checks. We know that there was an employment effect.

So, I believe that, while we have lost 5 million jobs in the last 15 months, that we would have lost more had it not been for that.

Mr. LINDER. Thank you.

You also predict that we're going to have a 9.5 percent unemployment rate through 2010?

Dr. SHIERHOLZ. That's right.

Mr. LINDER. The Obama budget says it's going to be 7.9 percent on average in 2010. Those are significant differences.

What kind of impact will it have on the GDP?

Dr. SHIERHOLZ. So, the CBO estimates that GDP is going to be growing at 7 percent below its potential for 2009 and 2010, and at 5 percent below its potential in 2011. That's a——

Mr. LINDER. My question is——

Dr. SHIERHOLZ [continuing]. Trillion dollar difference.

Mr. LINDER [continuing]. What impact on GDP will the difference between 9.5 percent unemployment and 7.9 percent unemployment have?

Dr. SHIERHOLZ. Oh, that's an interesting question.

I don't know exactly. It will be—what is 9.5 unemployment versus 7——

Mr. LINDER. 7.9.

Dr. SHIERHOLZ [continuing]. 7.9 percent unemployment. It indicates a much larger contraction, a much larger loss of hours worked in the economy by productive Americans. So, it would have a big impact.

I would have to think through what the actual percentage point was, but it would mean significantly lower growth.

Mr. LINDER. Would you try and do that and send it to me?

Dr. SHIERHOLZ. I would be happy to.

Mr. LINDER. Thank you.

Thank you, Mr. Chairman.

Chairman MCDERMOTT. Thank you.

Mr. Davis of Illinois will inquire.

Mr. DAVIS of Illinois. Thank you very much, Mr. Chairman.

Commissioner Thurmond, could you tell us how the modernization in the unemployment insurance will prevent the State of Georgia from having to raise taxes?

Mr. THURMOND. Thank you, Mr. Davis.

The most under-appreciated aspect of the UI stimulus is the tax relief afforded insured employers through stimulus investment that protects the solvency of State UI trust funds.

For instance, Georgia, based on our amended statute, will receive approximately $220 million in stimulus incentive. The present balance of our trust fund is about $470 million. We expect to generate an additional $400 million in contributions from Georgia employers.

We're presently paying out, on average, about $150 million a month. Without the stimulus, we would be in immediate threat within the next 6 months of becoming insolvent in our State.

In order to generate $220 million, absent the stimulus incentive, we would have to raise employer taxes by 45 percent.

Mr. DAVIS of Illinois. Thank you very much.

Mr. Walsh, let me ask you, why are unemployment insurance benefits so critical, not only for workers, but also for communities, and especially for business?

Mr. WALSH. That's a very good question, and my answer would be, the simple fact is, when unemployment benefits are paid, that goes to a struggling worker and their family, and most of the time, that is put immediately back into the economy.

$288 a week is what the average payment in 2008 was in Iowa for an average unemployment check. That's not enough to live on.

People are having to deplete their savings, they're having to sell their vehicles, and make other arrangements any way, borrow money from family, in most of those cases.

This is a little bit of money that can be put into that family's pocket, that will generally go out immediately. They use it to buy groceries, they use it to pay their rent, they use it to buy things, goods and services in their local communities.

In that way, it not only protects that family, that unemployed worker, but it also protects that community.

We have a lot of small communities in Iowa that would be just absolutely devastated. We would have grocery stores and small businesses and all kinds of businesses. It was $100 million roughly that, with extended unemployment, emergency unemployment compensation, that's gone into the Iowa economy since last July, and I can only imagine what our Iowa communities would look like right now if we didn't have those additional payments going into Iowa communities.

Mr. DAVIS of Illinois. Thank you very much.

Mr. Emsellem, would you say that it's fair to suggest that the UI provisions in the Recovery Act are probably the most important changes that we've seen in unemployment insurance since the Great Depression?

Mr. EMSELLEM. I think, all put together, if you put the modernization provisions together, the benefit increase, the extra benefits, it's probably the most historic legislation since the program was created in the thirties.

I'm not aware of anything more comprehensive that responds as immediately. It was there, right on time, and that was a huge accomplishment for this Congress. So, in that sense, too, it was historic.

Oftentimes, these extensions take a long time to get going and to get the money out the door and all that, in prior Congresses. This time, it didn't work out that way, and that was a huge accomplishment.

Mr. DAVIS of Illinois. Thank you very much.

Mr. Mitternight, let me just ask you, you indicated that there was no direct impact that you've seen on your business in terms of additional orders.

Would you concede that there might have been some indirect impact? Say, if a person went to the barber shop and got a haircut, the barber might have a little more money and might be able to place an order, or if we went to church and put a little money in the collection plate, that the preacher may have the money to place an order, that there would have been, then, some indirect impact on your business?

Mr. MITTERNIGHT. I would concede, that, any influx of cash flow in any method is going to help generate more business. I think that's what's lacking in the economy.

Obviously, businesspeople look for new business. We do commercial air conditioning, so, I can't directly answer that question, but in the long term, yes, it does have an impact on cash flow.

The thing that concerns us is what that influx of payment to the—extending benefits and paying more money, what it does to our bottom line, when we have to come up with the money to pay for those things.

Fortunately, Louisiana has a fairly solvent fund right now, and we've gotten to that stage for a couple of reasons, first off, because of some steps that were taken several years ago when our fund was not in a good situation, and also due to some of the rebuild effort that's still taking place in the New Orleans area and throughout parts of Louisiana, so we are still a little bit lagging behind the rest of the country as far as unemployment. Our unemployment rates are starting to rise now, and we are seeing the downturn.

The thing that concerns us is some of the other elements that this bill tacks onto the employers to have to pay for, and that, somewhere down the road, we have to pay the piper for these things that are being passed out, we're going to go back to the 1970s and 1980s, when unemployment premium rates were increased, the maximum amount of income was raised from $4,000 up to $7,000 now, so it comes directly out of the employers pocket. So, that's the thing that concerns us.

Mr. DAVIS of Illinois. Thank you very much.

Thank you, Mr. Chairman.

Chairman MCDERMOTT. Thank you.

Mr. Lewis of Georgia will inquire.

Mr. LEWIS. Thank you, Mr. Chairman.

Commissioner Thurmond, and maybe all members of the panel, is there anything more that Congress could do to make it easier for States to distribute UI benefits to unemployed workers? We may have a supplement bill coming down the pike.

So, is there something that you would recommend that we do to make it easier, to make it simple, to make it a little more convenient?

Mr. THURMOND. Thank you, Congressman, for the question.

First, let me, before I state that, let me reiterate how appreciative we are of the work that has already taken place, and the great benefits that have been provided to the citizens of Georgia.

The biggest challenge that we face right now is implementing the State extended benefit component. Beyond regular UI benefits, Tier 1 and Tier 2, you all, through your great wisdom, and I support it, provided funding for States to trigger into the State extended benefit programs.

This program in Georgia was last operationalized in the early 1980s, and at that point, it was primarily a paper system, and since then, through the support of the U.S. Department of Labor and other entities, we've gone to an electronic system, and Georgia, as well as some other States, are being challenged to operationalize this paper system in an electronic environment.

Our goal is your goal, which is to get the benefits to the people who qualify as quickly as possible.

Some of these provisions are going to make it extremely difficult to operationalize this component of the program, and that is one thing that we would like to at least have some discussion or encourage the Congress to look at, so that we could more quickly provide support for the people who need it the most, and the people who will qualify for this component are individuals who will have exhausted State benefits, Tier 1 and Tier 2 of the extended benefits, and consequently, would be the people in the greatest need of support.

Mr. LEWIS. Well, I'm sure you will have the support of most Members of this Committee. The chairman has been a real warrior in this whole area.

Would others like to respond?

Mr. WALSH. Yes, just very quickly.

I would echo what Commissioner Thurmond said in thanking you. The biggest factor that's made it easier for us this time around is the fact that there were administrative dollars attached, and there's been full funding for the contingency funds, and that has helped us tremendously in trying to implement these changes.

Obviously, the biggest barrier that we have in implementing these changes effectively is the fact, and there was discussion on it earlier, that in Iowa, we're on a legacy mainframe system, an older computer system that we're trying to modernize, and that's a very difficult task to do during times like these.

The one other minor thing that I would point out that would be, I think, helpful from a State's perspective, is that with the emergency unemployment compensation, there was a requirement that there was a 1.5 times high quarter in the base period. That's a different standard than we use in the State. We use 1.25 times in the State.

To have to recalculate the benefits, especially when you're on a legacy mainframe system, is very difficult, and we would submit that a more efficient and fairer way to do this would be just to allow the State to use their standard that they have adopted, in our case being the 1.25.

In Iowa, the fact that there was a different requirement put on for the emergency unemployment compensation resulted in the denial of about almost 900 Iowans from receiving the emergency unemployment compensation, and these are people who, they don't understand.

They understand they were entitled to unemployment, they understand that there was an emergency bill passed to extend those benefits. Then it's hard to explain to them why they're denied at that point in time.

The biggest factor is that it's just, it's extremely inefficient for us, and the hours of programming time that went into going back and trying to make that fix was extremely challenging for us, to say the least.

Mr. EMSELLEM. I would echo the comments. The 1.5 times requirement, the extra requirements imposed on people collecting emergency unemployment benefits under the Federal law, compared to what's in State law. There are also extra work search requirements.

So, for folks who are collecting these extended benefits, even though they've been out of work for this period of time, and we're reaching record levels of unemployment, they've got to produce even more evidence of work search.

This whole program was basically gutted in the 1980s, and there's a real opportunity now, the same reason why all these States, these 13 States are not tapping into the extra money because it requires a change in the formula to go for—to adopt a formula that says at 6.5 percent, we'll take the extra benefits.

All that is a function of what's wrong with this extended benefits program, all these things we're discussing, but there's a real opportunity here to take another look at fixing the extended benefits program, if we're going to keep using it.

I would also say you've got the appropriation coming up. That's a huge issue, because yes, the State has got a big chunk of money, really, really needed, $500 million.

The reason why the States are in the situation they're in now is because they built up really fast in response to the last recession, they staffed up, they did everything humanly possible to get benefits out the door, and then the administrative money went back down really quickly after the recession was over, so they had to cut back and retrench, and there was no money there to sustain a serious infrastructure to pay out the benefits.

So, obviously, the appropriation is huge, and then way more leadership, as much leadership as possible from the Department of Labor and all the good States, to figure out all the mechanics of processing benefits better—the phone systems, the Internet systems.

It's an entirely new age of processing benefits, the computers. There's a real opportunity to join forces to figure that out.

Right now, a lot of the States are pretty much left on their own to figure these issues out, so with more appropriation, with more help from the Federal, from the Labor Department, there's a chance to really build a stronger system that will sustain itself come next recession. That's really the important thing to be looking toward.

Mr. LEWIS. Thank you, Mr. Chairman.

Chairman MCDERMOTT. I don't like to hear there's going to be another recession, but nevertheless, Mr. Meek will inquire.

Mr. MEEK. Thank you very much, Mr. Chairman.

I'm really pleased, once again, on the second round of questioning, that we're having this discussion and panel of witnesses. I want to thank you for coming before Congress. I think it's a great honor to do so, and especially today.

We're talking about people that were working, that would like to work, that have become victims of this economy that we're in now. As public servants, we try to assist these individuals, many of whom are our constituents, who are trying to pull their own weight.

This unemployment insurance modernization provision that we have now, and I think it's very interesting, and Commissioner, I want to thank you for bringing to light the Governor's comments.

The chairman had the Governor's comments, and when he signed the legislation in Georgia, of saying that this is to take the burden off of Georgia businesses, and I'm in the Southeast United States too, and my family is from Tallahassee, so we step on the same red clay y'all step on in Georgia, plus my cousin is Representative James from Montezuma, Florida, I mean Montezuma, Georgia, and so we've spent many a day running through those peach fields.

I'm going back to the serious reason why we're here. I want you to talk a little further, because I'm really trying to understand why, Mr. Lewis, that the State of Florida would refuse to pass the necessary legislation to take advantage of not only the $444 million that we have put forth to be able to help us in these very hard economic times, but also not even look at the provision of saying that we can pass this legislation, these provisions for now, and if we find that they're not useful, later, then we can do away with those provisions.

Now, I think that that's a win-win situation, even if it's a philosophy issue, and in Florida, just like Georgia and many other States like it, especially States that somewhere touch the coast of the eastern seaboard, we have a lot of part-time workers.

We have folks that are popping sheets and waiting on people and doing a number of other things, who have been laid off because of the economic slowdown. When we had our earlier witness, Mr. Chairman, I talked about those that had full-time jobs, their benefits have depleted or they got that part-time job to be able to help, and now they've lost their part-time job, and they find themselves in the situation where they're not able to take advantage of what they're reading in the paper that we have made available to them.

So, I'm asking this entire panel to help me with the arguments, because there's legislation filed in the State legislature in the House, and also in the Senate.

When you run into these kinds of situations, and folks start saying, "Well, I'm more loyal to my own personal principle," meanwhile, they're not maxed out on their credit cards, they're not waiting in line for a job, they know that they're going to have employment tomorrow.

So, it's mighty comfortable when you're under the amber lights in an air-conditioned building versus someone who's trying to figure out how to make ends meet.

Help me with the arguments. That's what I'm asking the panel. I'm at that point now.

Mr. THURMOND. Thank you.

First of all, Congressman Meek, I spoke with Representative James just last week, and he's very proud of your accomplishments, and I'll give him your best as soon as I get back to Georgia.

In Georgia, the majority party is the Republican party, they control the House, the Senate, and the Governor's Mansion. I'm a three-term elected Democratic labor commissioner.

So, when we were presented with this opportunity, the challenge was clear. We could not pass it unless we had bipartisan support.

During my time in the legislature, dealing with some of these same issues, quite frankly, back in the late 1980s, when Mr. Linder and I served together, so how do you—the question is, how do you do it?

The first step was to really focus the attention on where the attention should be, and that is on men and women who have lost their jobs through no fault of their own. Number one, if you weren't working; number two, unless you lose your job through no fault of your own, you can't qualify.

I've said it time and time again. If we can't help working men and women in this country, then we got a serious problem. Now, how do you do it?

The first thing was to move beyond the ideologies, to be quite frank, and look at the specific issues.

One of the key issues that we had to address with the Governor and the House and the Senate, I did personally, was the cost, the short-term and long-term cost of part-time worker amendments, as well as the extended training benefit.

Back when I was first elected, even from the House, there were issues concerning the cost of allowing part-time workers to receive benefits.

It's an urban legend in many of these States that if a part-time worker loses his or her job, he or she can't qualify for UI benefits. That's just wrong.

There are millions of Americans who were working part-time, who have been laid off, who are receiving benefits today, all across this country. That was a difficult realization to get through.

The only change that this modernization amendment allows is that a part-time worker who was otherwise monetarily qualified would be able to, in the work search test, look for another part-time job.

In Georgia, in 2008, this is what we presented to the legislature. There were 792 Georgians who lost their jobs, who were working part-time when they were laid off. Of those, only 209 were denied benefits, because they refused to look for full-time work.

So, the change, Mr. Chairman, is simply to allow a person who was working part-time to, during their work search, look for another part-time job.

It's an urban legend that this changes in a really fundamental way the status of part-time workers. As a matter of fact, whether you're full-time or part-time has absolutely nothing to do with whether or not you can basically qualify for unemployment insurance benefits. It is a monetary determination.

In Georgia, you have to have earned, I think it's $1,334 in two of the last five quarters. It has nothing to do with whether or not you worked eight hours a day or 4 hours a day or 2 hours a day.

Once we were able to explain that, and to tell the employers, you are paying taxes on your part-time employees. If you're paying taxes on the employee, then why in the world shouldn't the employee be able to draw the benefit if he or she loses a job?

We were proud that the chamber representatives, business advocates, after we answered the question, ultimately came and supported the legislation, and played a big role, quite frankly, in getting it passed in the House and the Senate.

The first thing was, what is the true cost of the proposal on extended—and by the way, based on our projections, the cost of this particular component of the Modernization Act in Georgia is $300,000 a year.

Mr. MEEK. Mr. Chairman, I know we're out of time, but I'm pleased that we have this panel here, because it's very timely, especially in Florida's case.

We have a number of folks that are out of work. Many of these individuals, the only jobs that are out there are part-time jobs, and especially if they came from—even if they came from a full-time job, people just want to go to work. They want to be able to assist their families.

That's one of the reasons why, Mr. Chairman, the President flew down to Fort Myers, Florida, because of the unemployment rate there. We have a lot of service workers that are there, that are working part time.

Commissioner, I want to thank you for helping me make additional arguments. I know I've entered a letter in the record for the Committee, but you've helped me come up with more justification on why Florida, a neighboring State, should take advantage of this.

What we've also heard from some of our witnesses, the dollars that they'll receive in unemployment benefits while they're looking for another job will be able to assist businesses and help our economy and help the State with revenue, and those dollars are not used, from previous testimony here today, are not used to go into some sort of savings account or some sort of IRA. They're going directly into the cost of living that eventually will save jobs and create jobs to help our economy bounce back.

So, again, Mr. Chairman, thank you.

Chairman MCDERMOTT. We thank all the witnesses.

I would assure those of you who raised questions about things that were not changed, at least one I can remember we got changed out of the House, but we had to give it back to the Senate.

So, the list of things that we intend to try and fix in this system is not done yet, and we'll see you again.

Thank you very much.

[Whereupon, at 12:33 p.m., the Subcommittee was adjourned.]

[Questions for the Record follow:]

Questions from Ranking Member Linder to Dr. Shierholz follow

Hearing on Implementation of Unemployment Insurance Provisions in the Recovery Act
U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Income Security and Family Support
Thursday, April 23rd, 2009

Response to a question posed in the hearing
Heidi Shierholz, Ph.D.
Economist, Economic Policy Institute

Question by Representative John Linder: *What impact on GDP will the difference between 9.5 percent unemployment and 7.9 percent unemployment have?*

Okun's law is a rule-of-thumb measure that provides a rough idea of the relationship between output changes and unemployment changes. Using Okun's law and current consensus estimates of the parameters involved, I find that an increase in unemployment from 7.9% to 9.5% would be associated with a 0.2% decline in GDP.

It is important to keep in mind that while the Recovery Act will create or preserve around three and a half million jobs, when it was passed the labor market was in steep decline and in March (the latest data available as of this writing) the economy was already 7 million jobs below what would have been needed to maintain pre-recession unemployment rates. (From December 2007 to March 2009, the economy lost 5.1 million jobs, but it would have needed to have *added* roughly 1.9 million jobs over that period just to keep up with population growth, leaving the economy a total of 7 million jobs in the hole.) Thus, while the Recovery Act is a very important step towards pulling the US economy out of its nosedive, it was never big enough to fully fill in the gap -- even while it was being debated the labor market deteriorated so quickly that before the Act took effect the labor market was down roughly twice as many jobs as the Act was ever expected to create.

Questions from the Subcommittee to Mr. Uhalde follow

Follow-Up Questions from Hearing on Implementation of the UI Provisions in the American Recovery and Reinvestment Act (Recovery Act)

1. How many States have had to raise their State unemployment payroll taxes since the start of this recession? How much do you project State unemployment tax revenues collectively will have to rise from 2009 through 2013 to cover recent and ongoing benefit payments, the repayment of Federal loans, and other costs? How does that compare with the baseline estimates for revenues during those 5 years before 2009 began?

Answer: State tax systems are generally designed to automatically increase revenues, usually with some time lag, as benefits increase and fund balances fall. From preliminary data, it appears that up to ten states have higher average tax rates in 2009 than in 2008. Overall, we project state unemployment revenues to total $245 billion for FY 2009-13, compared to $170 billion for FY 2004-08. These projections are based on historical patterns of tax response and trust fund replenishment, whether automatic or legislated, as well as on growth in employment and wages.

2. You mention at the end of your testimony (p. 9) that "Due to the increase in benefit payments, we project increased borrowing with the result that the Unemployment Trust Fund will need to borrow $16 billion from the General Fund Revenues in FY 2010 to cover these loans to states."

    a. Just to be completely clear – you are testifying that the Federal Unemployment Account (FUA, which supports loans to States) will be exhausted sometime in 2010, correct? (During the hearing you suggested this was borrowing by States, but Mr. Linder's question was about the timing and nature of borrowing by the Federal unemployment trust funds from Federal general revenues, because the Federal unemployment accounts were drained.)

Answer: That is correct. We estimate that the FUA will need to borrow $16 billion from Federal general revenues in FY 2010.

    b. How much do you project the Federal unemployment trust funds will need to borrow from Federal general revenues in the next 5 years?

Answer: We estimate total borrowing will be about $30 billion, all of it in 2010 and 2011.

    c. When and how will those borrowed amounts be repaid?

Answer: As states repay their loans, FUA will be able to repay the general fund. We project final repayment of general fund advances in FY 2013.

d. How much in general revenues have already been used in the course of this recession, or will be used in the coming months according to the stimulus law, for unemployment benefit purposes, most importantly for the payment of Emergency Unemployment Compensation (EUC) benefits? Will those funds be repaid?

Answer: We estimate that, under current law, $34 billion of general revenues will be used for EUC benefits and Federal Additional Compensation enacted in the Recovery Act. The Act appropriated general funds for these programs, so these funds are not borrowed and therefore, do not need to be repaid.

e. Didn't this same situation occur in the 1970s – i.e. borrowing from general revenues after Federal unemployment trust funds were drained? Do you anticipate a similar response this time, with the creation of a special Federal unemployment surtax to raise the revenues needed to repay amounts borrowed? If so, how large would this surtax be? If not, how will these funds be repaid?

Answer: In the 1970s, a large part of the borrowing was used to pay for benefits under the temporary Federal Supplemental Benefits program, so it was necessary to raise the Federal unemployment taxes to repay the advances. In the current situation, the general fund borrowing will mostly be used to provide loans to states. When the states repay their loans, the FUA will be able to repay the general fund without the need for a Federal tax increase.

3. What does the Department of Labor (DOL) project will be the amount of unemployment benefit overpayments in 2009? How much do you project the overpayments will be just for individuals who continue to work while collecting unemployment benefits?

Answer: For fiscal year (FY) 2009, UI overpayments are estimated to total $6.87 billion, and overpayments attributable to individuals who return to work and continue to collect unemployment benefits are estimated to total $2.11 billion. States use a variety of methods to collect overpayments such as direct repayment from individuals, deduction from future unemployment benefits payable, and offset from state tax refunds due. Authority enacted last year to use the Treasury Offset Program to collect overpayments due to fraud from Federal income tax refunds due is expected to increase recoveries. The Department of Labor provides oversight and technical assistance concerning the prevention, identification, and collection of overpayments. In addition, the Administration is proposing legislative changes that will reduce UI improper payments and employer tax evasion.

4. Per Mr. Linder's question about the Recovery.gov website, here is the data in question: http://www.recovery.gov/?q=content/investments-agency. As Mr. Linder mentioned, this data shows that of the nearly $4 billion in stimulus funds DOL

received, it has paid out about $1 million, or less than three one hundredths of one percent. What are the programs and funds in question? And what accounts for the Department of Labor's (DOL's) slow pace in getting these stimulus funds out the door compared with other agencies?

Answer. DOL received $4.8 billion in Division A Recovery Act funding. Of that amount, $3.4 billion was awarded under the Workforce Investment Act, Community Service Employment for Older Americans, and Wagner-Peyser formula processes, as modified by the Recovery Act, to the formula grantees within 30 days of enactment of the Recovery Act. The remainder of the Recovery Act funds is appropriated for programs in which a competitive grant award process must be implemented, or for which individual states must apply for event-driven funding. $6.8 million of those latter funds have been awarded as National Emergency Grants as of April 24, 2009. DOL is in the process of conducting the required grant competitions for the remaining funds. In addition, funding was provided for Federal oversight of Recovery Act programs.

The $3.4 billion of already awarded funds are available to the various grantees for their authorized uses. The grantees are in the process of preparing to expand their operations as appropriate. As of April 24, 2009, the grantees had drawn just over $2 million. DOL expects that the grantees will be drawing significantly greater amounts of those funds in the coming weeks.

5. In your written and oral testimony, you suggested that every $1 dollar in unemployment benefit spending results in $2.15 in increased GDP. Yet Mark Zandi, whose work is often cited on this point, says the multiplier is $1.64. Heidi Schierholz of EPI notes Zandi's figure in her testimony on page 7. CBO finds a range of between $2.20 and $0.80. Please explain how you arrived at $2.15 for your multiplier and why you think this is more accurate than those mentioned above.

Answer: The multiplier of $2.15 is from a 1999 study by Coffey Communications entitled *Unemployment Insurance as an Automatic Stabilizer: Evidence of Effectiveness Over Three Decades*. The study covered the period 1969 to 1998 and utilized rigorous statistical techniques to analyze the impact of the UI program. The entire study with a description of the methodology can be found at:

http://wdr.doleta.gov/research/keyword.cfm?fuseaction=dsp_resultDetails&pub_id=372&bas_option=Title&start=1&usrt=4&stype=basic&sv=1&criteria=Unemployment%20Insurance%20as%20an%20Automatic%20Stabilizer

The $2.15 represents an average cushioning effect for GDP of a UI benefit dollar with a range of $1.54 to $3.07. Given the range, it is evident that the time period examined, as well as the study methodology used, can lead to different estimates of the multiplier. The testimony used the Coffey study as it documents its methodology in detail. Such details were not available for other multiplier estimates.

6. In March, President Obama said the stimulus bill will "save and create over 3.5 million jobs over the next two years."

    a. For purposes of account for the 3.5 million jobs to be saved and created, please define what constitutes a "saved job". Is DOL or the Administration tracking (in the form of a database or otherwise) jobs saved and created by the stimulus legislation? Do you plan to do so?

Answer: The Administration projected 3.5 million jobs number will be saved or created relative to a baseline of no stimulus. The Recovery Act requires the Council of Economic Advisers to report employment effects from the Recovery Act quarterly. The methods the CEA plans on using to report on these employment effects are outlined in http://www.whitehouse.gov/assets/documents/Job-Years_Revised5-8.pdf.

    b. When the stimulus bill was signed in February 2009, there were 133.7 million jobs in the U.S. Is it possible that President Obama could fulfill his pledge to "save and create 3.5 million jobs" if payroll employment winds up at anything less than 137.2 million at the end of 2010 – that is, 3.5 million above the level when he signed the bill? Could the President credibly argue that any remaining "gap" was filled by jobs that were somehow "saved"?

Answer: A job that is "saved" or "created" is the net employment effect of the Recovery Act compared with the baseline of no stimulus. As noted above, the methods the CEA will use to report on these employment effects are outlined in http://www.whitehouse.gov/assets/documents/Job-Years_Revised5-8.pdf.

Following the hearing, Ranking Member Linder inserted an additional statement for the Record

Who Says Extending Unemployment Benefits Can Lead to More and Longer Unemployment?

April 23, 2009

1. Lawrence Summers, Director of the National Economic Council and Assistant to the President for Economic Policy, Obama Administration (2008-Present)[1]

"To fully understand unemployment, we must consider the causes of recorded long-term unemployment. Empirical evidence shows that two causes are welfare payments and unemployment insurance.

First, **government assistance increases the measure of unemployment by prompting people who are not working to claim that they are looking for work even when they are not**....

The second way government assistance programs contribute to long-term unemployment is by providing an incentive, and the means, not to work. Each unemployed person has a "reservation wage"—the minimum wage he or she insists on getting before accepting a job. Unemployment insurance and other social assistance programs increase that reservation wage, causing an unemployed person to remain unemployed longer....

Unemployment insurance also extends the time a person stays off the job. Clark and I estimated that the existence of unemployment insurance almost doubles the number of unemployment spells lasting more than three months."

2. Lawrence Katz, Chief Economist, U.S. Department of Labor, Clinton Administration (1993-94)[2]

"Changes in the level of benefits and changes in the potential length of benefits have substantial effects on the mean duration of unemployment of UI recipients....An increase in the potential duration of benefits from 26 to 39 weeks is predicted to raise the mean unemployment spell duration by 2.1 weeks in both simulations. **This is a surprisingly large effect** given that most spells are completed well before the 26 weeks of regular benefits run out." (p. 29)

"There are large spikes in the escape rate from unemployment at 26 weeks and at 39 weeks for UI recipients. Spikes of similar magnitude at 26 and 39 weeks are not apparent for UI non-recipients." (p. 14)

"An increase in potential benefit duration from six months to one year is predicted to increase mean duration of unemployment by 4 to 5 weeks." (p. 35)

"(E)xtending benefits may reduce the total money income of UI recipients. If one assumes that reemployment earnings are 90 percent of previous earnings, then both specifications yield the prediction that **the income of the typical UI recipient actually falls in response to an increase in potential benefit duration from 26 to 39 weeks."** (p. 34)

3. The New York Times[3]

"The expiration of (unemployment) benefits typically helps the economy, forcing people to find work eventually and preventing unemployment stretches from reaching the length they do in Europe, where benefits are more generous, economists say."

4. The Congressional Budget Office[4]

"Extending the duration of benefits or increasing their size means that at least some recipients may remain unemployed longer than they would have without that aid. **The effect is probably most pronounced when jobless rates are relatively low."**

1 The Concise Encyclopedia of Economics. http://www.econlib.org/library/Enc/Unemployment.html

2 From "*The Impact of the Potential Duration of Unemployment Benefits on the Duration of Unemployment*" by Lawrence F. Katz of Harvard University, and Bruce D. Meyer of Northwestern University, Revised September 1988

3 "*Long-Term Jobless Rose by 30 Percent Over the Last Year*," September 9, 2002.

4 "*Options for Responding to Short-Term Economic Weakness*, January 2008, p. 17 http://www.cbo.gov/ftpdocs/89xx/doc8916/01-15-Econ_Stimulus.pdf

[Submissions for the Record follow:]

Dear Chairman McDermott and Ranking Member Linder:

The U.S. Chamber of Commerce, the world's largest business federation representing more than three million businesses and organizations of every size, sector, and region, appreciates this opportunity to provide a statement for the record as part of the committee's ongoing oversight of unemployment insurance ("UI"), especially during a time of economic uncertainty. For the reasons described below, the Chamber opposes any move to force States as a condition of receiving special incentive distribution payments to permanently expand the eligibility of individuals to receive UI compensation, which would create a disincentive for individuals to return to work, hamper job creation, and increase the tax burden on employers.

The American Recovery and Reinvestment Act ("Recovery Act") reserved $7 billion in the Federal Unemployment Account ("FUA") for States that enact permanent legislative changes to "modernize" their UI systems. States are eligible to receive one-third of the State's share of the $7 billion by adopting an alternative-base period, and the remaining two-thirds by enacting two of the four provisions outlined in the bill. The four provisions include: prohibiting the denial of UI compensation to individuals who limit their availability to only part-time work; expanding UI eligibility to individuals who quit work for a "compelling family reason"; extending the length of benefits to individuals who are participating in training programs; and adding dependents' allowances to the amount of UI compensation. Further, the Recovery Act provides $500 million in administrative funding, including amounts for States' administrative costs in dealing with the influx of the additional individuals who would be eligible for compensation.

The Chamber believes that forcing States to adopt laws that do not disqualify a worker from UI compensation for separation of employment if it is for a "compelling family reason" is an egregious change to the UI system. This drastic change expands eligibility for UI compensation to an increased number of individuals who were not laid off because of tough economic times. Rather, this is an effort to force States through Federal requirements to alter and expand their UI programs when previous proposals at the State level failed because stakeholders readily agreed that the system and its eligibility requirements were already properly balanced without such expansions. These changes will greatly undermine the original goal of UI to provide assistance to workers who lose their job through no fault of their own in connection with their work, and moves the UI system from a temporary insurance program for employees, to a Government benefit that compensates for unemployment.

Not only does expanding UI coverage under the Recovery Act directly conflict with the original tenets of the UI system, it prevents economic recovery. Further expanding and extending benefits at this point in the recovery actually discourages individuals from re-entering the workforce because they continue to receive unemployment compensation. Businesses will see a dramatic increase in taxes needed to pay for the expansion and extension of benefits, preventing them from creating new jobs. Further, forcing States to adopt certain expansions in order to receive additional Federal funds will hamper States' future efforts to improve their systems.

The Chamber is equally concerned with how Congress intends to replenish the FUA, from which the $7 billion in incentive money will be distributed. Due to the $9 billion that States have already borrowed to shore up their systems as a result of the increase in UI claims and the money being spent for emergency and extended benefits under the Recovery Act, the U.S. Department of Labor projects that over $16 billion will need to be borrowed from the General Revenue in FY 2010 in order to eliminate the deficit in UI accounts. This will place an extra burden on other Government programs that rely on such funding and slow our economic recovery.

In addition, the President's FY 2010 budget projects Federal and State unemployment insurance tax receipts to increase from $44 billion in 2009 to $53 billion in 2010, and then to jump to $67 billion by 2013, a 52% increase from 2009.

Borrowing against the General Revenue, coupled with a projected 52% increase in UI tax receipts over four years, signals only one thing:**a greater tax burden on employers**.

Employers are likely to be asked to pay increased Federal Unemployment Tax Act ("FUTA") taxes in order to re-fill the FUA and meet the President's budget projections. The FUTA tax is entirely paid by employers, as there is no Federal payroll withholdings from employees' wages. In addition to the increase in the FUTA tax, State UI taxes will also likely increase in part due to federally required expansions. In short, despite the uncertainty in the economy, employers of all sizes are likely to be compelled to pay the entire amount needed to restore the FUA to appropriate levels.

Businesses across the country that are simply trying to survive in these difficult times want to improve their economic position and be able to hire new employees and do their part to revive the economy. To stimulate economic recovery across the country we should be investing in measures to encourage individuals to actively seek and accept work, eliminate barriers to employment, and stimulate the creation of new jobs. The expansion of UI eligibility appears to move in the opposite direction on all of these key points with dramatic increases in taxes and the permanent continuation of UI entitlement expansions.

The federally imposed UI entitlement expansions and increases in the FUTA tax will delay economic recovery and will stifle the ability of businesses to grow. The Chamber urges you to consider these important concerns and looks forward to working with you on this important issue.

Sincerely,

Randel K. Johnson
Vice President, Labor, Immigration & Employee Benefits
U.S. Chamber of Commerce

Cc: Members of the Subcommittee on Income Security and Family Support