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UNEMPLOYMENT INSURANCE BENEFITS: WHERE DO WE GO FROM HERE?

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

SEPTEMBER 15, 2009

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UNEMPLOYMENT INSURANCE BENEFITS: WHERE DO WE GO FROM HERE?

TUESDAY, SEPTEMBER 15, 2009

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:05 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Present: Senators Wyden, Stabenow, Menendez, Bunning, and Enzi.

Also present: Democratic Staff: Bill Dauster, Deputy Staff Director and General Counsel; Alan Cohen, Senior Budget Analyst; Diedra Henry-Spires, Professional Staff; and Toni Miles, Fellow. Republican Staff: Steve Robinson, Chief Social Security Advisor.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The hearing will come to order.

The author Robert Fulghum said: "A job title doesn't come close to answering the question: 'What do you do?' "

Often, what you do is among the first things that folks will ask. Often, it is a question about much more than just how we spend our time. These days, more and more Americans answer the question "What do you do?" by talking about how they are looking for work.

The unemployment rate is now 9.7 percent, and economists expect it to rise above 10 percent before long. That unemployment rate means that 14.5 million people have lost their jobs and are currently looking for work. Five million people have been looking for work for more than 6 months.

Those numbers tell us something about the economy in this great recession. More importantly, these numbers tell us something about the hardships that real people are facing every day.

Last week, the Federal Reserve's Beige Book said that the economy continues to stabilize. The economy shows signs of improvement. That is good news. But the Beige Book also reports that the labor market remains weak. Recent reports show that there are about 3 million job openings, being chased by about 15 million unemployed people. Companies are being cautious about adding permanent staff. Instead, they are asking more from their existing staff.

As dire as the situation may be, ours is a resilient economy. The American economy will recover, and the economy will recover one job at a time. We must continue our work to create jobs, and we must also help our neighbors who are looking for work. That is what we did in the Recovery Act.

The average unemployment insurance benefit is $279 a week. The Recovery Act added an extra $25 a week, but the average cost of a loaf of bread is $2.79, the average cost of a gallon of milk is $2.72, and diapers for just one baby can cost up to $85 a month. These days, $279 only stretches so far.

We need to keep our unemployed neighbors from falling into poverty. We need to figure out how best to make our safety net work. And, in helping our unemployed neighbors, we also help to keep open the neighborhood grocery store and the neighborhood gas station. In helping our unemployed neighbors, we also help to keep houses out of foreclosure. And in helping our unemployed neighbors, we also help our economy and ourselves.

Today we hear from experts and stakeholders about unemployment insurance. We will hear the views of unemployment beneficiaries, employers, States, and economists.

We hope to get some good ideas about how to help people now, and in the long run. Congress faces major decisions about unemployment insurance. If we continue to make the right choices, more folks will find work again, and sooner.

As Robert Fulghum said: "A job title doesn't come close to answering the question: 'What do you do?'" Our title may be Senator, but that does not come close to telling what we do. A deeper question may be: "What do we do to help people?" Today we will spend some time seeing if we can do some of that.

I would like now to welcome our witnesses. First, we will hear from Beth Shulman, chairman of the board of the National Employment Law Project. Our second witness is Douglas Holmes, president, Strategic Services on Unemployment and Workers' Compensation. Our third witness is Karen Campbell. She is a macroeconomic policy analyst at The Heritage Foundation. Our fourth witness, Thomas Whitaker, is president of the National Association of State Workforce Agencies. And, finally, we will hear from Gary Burtless, senior fellow in economic studies at Brookings.

As a reminder, all written statements will be automatically included in the record. I ask each of you to contain your remarks to about 5 minutes.

All right. Ms. Shulman? You are first.

STATEMENT OF BETH SHULMAN, JD, CHAIR, BOARD OF DIRECTORS, NATIONAL EMPLOYMENT LAW PROJECT, WASHINGTON, DC

Ms. SHULMAN. Chairman Baucus and members of this committee, it is indeed an opportunity to testify on the subject of unemployment in today's struggling economy and the urgent need to extend unemployment benefits.

As chair of the board of directors of the National Employment Law Project, which specializes in economic security programs, including unemployment insurance and Trade Adjustment Assistance, we see the problems of unemployed workers all over this country.

In February, the American Recovery and Reinvestment Act was signed, which went a long way toward improving the safety net for the Nation's unemployed families. Of special significance, the Recovery Act boosted the State and Federal unemployment benefits by $25 per week, while offering the unemployed a 65-percent subsidy on COBRA health benefits and declaring the first $2,400 of unemployment benefits received in 2009 tax-free.

In addition, thanks to additional Federal funding covering the full costs of extended benefits, more than half of the States now qualify for up to 53 weeks of Federal jobless benefits. The benefits provided by the Recovery Act have been a vital lifeline for literally millions of workers now struggling to cover their basic necessities, while looking for work in an economy that is producing only one job opening for every six unemployed workers.

At NELP, we hear from families all over this country who, but for the Recovery Act, would be entirely destitute. Now is not the time to pull the plug. Despite promising signs of an economic recovery on some fronts, the crisis of job loss and joblessness is severe and continuing.

The Congressional Budget Office projects unemployment to exceed 9 percent, and even 10 percent, through 2011, and the number of long-term jobless has reached historical levels. Five million Americans have been unemployed for 6 months or more since December of 2007—a record since data has been recorded starting in 1948.

Take Ricky Macoy of Quinlan, TX, who is one of these workers whose unemployment benefits are all that is keeping his family afloat. Mr. Macoy, a Navy veteran, is a 55-year old electrician with 30 years of experience. He lost his job in Louisiana repairing ships when his employer pulled the plug on a contract last year halfway through the project.

Mr. Macoy receives $372 a week in unemployment benefits, which he relies on to support himself and his 11-year old son. He has spent his savings, cannot afford to pay for COBRA, even with the Federal subsidy, and is now worried that he and his son will be evicted if there are no more employment benefits. He has looked and looked for work, but there is just nothing to be found.

Mr. Macoy is not alone. He is one of about 400,000 workers who, unless Congress acts promptly, will lose Federal jobless benefits by the end of this month, and one of 1.4 million workers who will do so by the end of the year.

Given the devastating impact of the loss of benefits on families and communities, we urge Congress to immediately pass legislation to expand and extend the Recovery Act by: one, extending all aspects of the recovery benefits for unemployed workers through the end of 2010; two, by providing an immediate additional extension of 10 to 20 weeks of benefits for long-term jobless workers in all States, with the number of weeks determined by each State's rate of unemployment; three, simplify the two Federal extension programs now on the books; and, four, create a performance bonus program to encourage States to adopt proven best practices.

NELP believes the first priority of Congress should be to provide an immediate additional extension of 10 to 20 weeks of benefits for long-term jobless workers in all States, with the number of weeks determined by each State's rate of unemployment. Without extension of benefits of these millions of workers, many of these workers will be forced to leave their homes, many will go hungry, many will be unable to pay their utility bills or provide gas for their cars, many will fall into poverty, and many will be like Ricky Macoy.

And providing an extension of benefits will also help stimulate the economy. Unemployment benefits boost economic growth by $2.15 for every dollar of benefits circulating in the economy. What is more, an immediate extension of jobless benefits will go a long way to help prevent a more serious housing slump which has devastated whole communities.

A national study found that unemployment benefits reduced the chances that a worker will be forced to sell his family home by one-half. Some argue that by extending these benefits we are encouraging workers to stay at home. While this argument in the best of economic times is flimsy, it strains credulity in the worst recession since the Great Depression, when jobs do not exist.

In conclusion, millions of Americans and their families are depending on Congress to give them the helping hand they need during this time of economic crisis. Likewise, their communities need them to keep their heads above water so that local economies, too, will overcome the recession.

NELP, on behalf of the millions of unemployed workers in this country, implores you to enact a robust extension and expansion of unemployment benefits which we have proposed. Jobless Americans and their communities demand and deserve no less.

And, in conclusion, I got an e-mail last night from Jennifer Hodge from Michigan, who worked as a business management director. And she wrote in her e-mail that, but for unemployment benefits, she will lose everything that she has worked for, for her whole life.

On behalf of Jennifer and the millions of Americans who need unemployment benefits, we urge you to extend unemployment benefits and enact new legislation.

Thank you.

The CHAIRMAN. Thank you, Ms. Shulman, very much. That was very helpful.

[The prepared statement of Ms. Shulman appears in the appendix.]

The CHAIRMAN. Mr. Holmes?

STATEMENT OF DOUG HOLMES, PRESIDENT, UWC—STRATEGIC SERVICES ON UNEMPLOYMENT AND WORKERS' COMPENSATION AND THE NATIONAL FOUNDATION FOR UNEMPLOYMENT COMPENSATION AND WORKERS' COMPENSATION, WASHINGTON, DC

Mr. HOLMES. Thank you, Chairman Baucus and members of the committee, for the opportunity to testify this morning on the topic of "Unemployment Insurance Benefits: Where Do We Go From Here?"

I am Doug Holmes, president of UWC. UWC is a membership organization that includes a broad range of large and small businesses, trade associations, service companies, third-party administrators, unemployment tax professionals, and some State workforce agencies. The organization traces its roots back to 1933 at the time when unemployment insurance was first being considered for enactment.

In exploring where we go from here, we should consider a number of factors, including the trend in unemployment initial claims for State unemployment compensation, the trend in employment, the impact of the current Recovery Act, the cost of further Federal extensions, the impact of alternative options on the creation of sustainable jobs, and the administrative and tax burden on the Federal/State unemployment tax system and employers.

The seasonally adjusted initial unemployment claims numbers are trending down. The loss in employment has slowed in recent months, and shown growth in education and health services, retail trade in motor vehicles and parts, at automobile dealers, department stores and general merchandise stores, and in government.

Although the total unemployment rate is 9.7 percent and will likely remain high for a number of months, it is not the best measure of progress in employment, as it includes numbers of individuals new to the job market or who were previously discouraged from participating in the job market.

The fact that discouraged workers are now, once again, actively seeking work is an indication of improving health in the economy, even though their inclusion in the unemployment rate calculation may result in temporarily higher total unemployment rates.

We should be mindful that measures taken now to add UI benefits and/or tax increases could jeopardize the recovery and result in a double-dip recession.

A number of legislative steps and policies would be helpful in assuring a sustained recovery. First, minimize Federal and State unemployment taxes. The UI program is a social insurance program that is funded by employers through dedicated State and Federal payroll taxes. The State tax is experience-rated, so that State UI taxes go up and down in response to claims. Even without further Federal legislation, State unemployment taxes are likely to double on average in the next 2 years and to stay at a much higher rate for a decade before solvency returns to State UI trust funds. Employers with relatively low State unemployment taxes will experience even greater percentage increases as a series of State solvency taxes are likely to be imposed to address State unemployment trust fund insolvency.

In response to significant extended unemployment compensation payouts in the 1970s, Federal unemployment accounts were depleted and Federal general revenue was advanced to cover the deficiency. It sounds familiar. In 1976, the Federal Unemployment Tax Act tax base was increased from $4,200 to $6,000 and the net FUTA tax rate was increased from 0.5 to 0.7 percent. In 1982, the FUTA tax base was increased from $6,000 to $7,000, and the net Federal tax rate was increased to 0.8 percent.

Although all general revenue advances were repaid in 1987, the “temporary” surtax was continued and is scheduled to sunset at the end of 2009. These tax increases could have been avoided and more jobs created during this period with careful management of unemployment benefits spending levels on the front end and recognition that payroll tax increases negatively impact employment growth.

The FUTA 0.2 percent "temporary" surtax should be permitted to sunset after this year to reduce the cost of employment and increase the likelihood that new jobs will be created.

Two: avoid further increasing Federal debt. The combination of the increase in State unemployment claims due to the recession and additional spending under the Recovery Act has caused a jump in spending from $43 billion in fiscal year 2008 to $116 billion in 2009, and a projected $109 billion in 2010 and $79 billion in 2011. These increases do not include additional spending that would be part of further recovery provisions or expansions that have recently been introduced. An additional $70 to $74 billion in spending will provide more weeks of unemployment compensation, but will also bankrupt these accounts even further.

Number three: rely on the regular State unemployment and Federal Extended Benefit System to provide a continuing safety net as the Recovery Act provisions end.

Individuals are already covered for unemployment compensation under the regular act and can receive up to 26 weeks of unemployment compensation, as well as 13 or 20 weeks of extended benefits under the existing programs. This is a program that can be used to assure that individuals continue to have a safety net to rely upon.

In conclusion, let me identify the primary features of what I think we should be doing.

First of all, minimize unemployment taxes. Second, use the regular Federal and State unemployment system to provide the ongoing safety net. We should follow the initial claims and employment trends closely through the balance of the year, avoid adding new Federal debt, and reduce Federal UI payroll taxes in recognition that State UI taxes will be increasing significantly in the next 3 years.

State shares of the $7 billion reserved for "UI Modernization" should be distributed to the States as Reed Act distributions without requiring that State UI benefit entitlement be expanded.

Strategic administrative funding to address fraud and integrity of the UI system is needed, as well as funding for measures to reduce the duration of unemployment compensation and return unemployed workers to work.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Holmes.

[The prepared statement of Mr. Holmes appears in the appendix.]

The CHAIRMAN. Dr. Campbell, you are next.

STATEMENT OF DR. KAREN A. CAMPBELL, MACROECONOMIC POLICY ANALYST, CENTER FOR DATA ANALYSIS, THE HERITAGE FOUNDATION, WASHINGTON, DC

Dr. CAMPBELL. Hello. My name is Karen Campbell. I am a policy analyst in macroeconomics at The Heritage Foundation.

The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

I want to thank the chairman and the other members of this committee for the opportunity to address you today concerning unemployment and where we go from here.

Today I will discuss the overall economic consequences of extending unemployment insurance, particularly in light of current economic conditions.

Is it possible that, at this point, unemployment insurance is competing with other government-funded job-creating goals and programs? Unemployment insurance provides a safety net for individuals who find themselves temporarily between jobs. But longer-term unemployment is an unemployment problem for which unemployment insurance is too blunt a policy tool.

Unemployment, originally due to the recession, can quickly become a structural unemployment problem. As the recession plays out, the business landscape is inevitably altered. Businesses that did not survive the down-turn might re-emerge with different cost structures. This usually requires different technology and processes. Other businesses might permanently close their doors. Recessions may also change the needs of consumers. This means investing in new businesses and new employment skills to meet the changed needs of the marketplace.

Insurance policies alter the incentives individuals face and have the well-known perverse effect of nudging the very behavior that would lead to payout of the insurance policy. This is known as the problem of moral hazard. When the incentives of an insurance policy become unbalanced, it can be counter-productive.

Economists have found unemployment insurance affects an individual's incentive to find a job. For example, labor economists estimate that extending the potential duration of unemployment benefits by 13 weeks increases the average amount of time workers on UI remain unemployed by 2 weeks.

Designing policies that best balance the incentives of all members of society is an extremely challenging task. Whenever debt is used to finance a proposal, one criterion is whether the proposal earns greater income on the borrowed funds that it must pay in interest on the debt.

My colleague James Sherk and I dynamically estimated the effect of borrowing money to pay additional weeks of unemployment benefits. The dynamic model takes account of the interactions between the positive effects on income and spending smoothing, the borrowing effects of interest rates and investment levels, and the productivity effects in terms of less labor time.

We found that overall net impact to be negative. That is, for every $1 the government borrowed, GDP increased by, at most, 25 cents. As this negative 75-percent return is siphoned out of the economy over time, these losses are felt in less new investments taking place. This leads to less new capacity and less opportunity for employment.

Lastly, there are a number of current economic conditions that are relevant for evaluating whether S. 1647 will contribute to greater economic growth and stability, or in fact make it more difficult for individuals to find work.

The Federal Reserve is seeing stabilization in a slowly recovering economy. The sustainability of the recovery, though, will depend on the ability of individuals and businesses to invest in both human and physical capital. These investments are necessary to meet the needs of the changed economic landscape. As the government borrows more and more from savers, the ability of private individuals to make these investments may be hindered.

The CBO is projecting that the U.S. debt is on course to reach $9.1 trillion in the next 10 years. As more and more of our national income is used to finance debt, we will have less income to invest and grow. This deterioration of the U.S. economy's balance sheet is already worrying countries that hold U.S. debt.

It is well known that unemployment is a lagging indicator and that the unemployment rate can rise even after a recovery has started. Yet, it should also be noted that the information economy brought about by the Internet is affording many more opportunities for freelance and other forms of self-employment. These may currently go under the radar. Understanding the way individuals are employed in the 21st century and adapting policies accordingly will be a key to fostering a sustainable recovery.

The economic recovery will take time, and perhaps, more importantly, confidence in the stability of the economy going forward. New investments need to be made and brought online, new businesses must be created to fill the gaps in the market left by closed businesses, new supply channels need to be forged, and employer and employee matches must be made in light of the new skills and technology that are needed. All of these market adaptations must take place within the institution of government policies. This is why it is important that policies do not hinder the very outcome they are trying to promote.

A program meant as a temporary safety net for workers who find themselves involuntarily unemployed is too blunt a tool to address the needs of individuals who find themselves unemployed for longer durations. More effective policies will be those that foster economic stability and employment-creating investments.

Thank you, very much.

The CHAIRMAN. Thank you very much for your comments, Dr. Campbell.

[The prepared statement of Dr. Campbell appears in the appendix.]

The CHAIRMAN. Mr. Whitaker, you are next.

STATEMENT OF THOMAS S. WHITAKER, JD, PRESIDENT, NATIONAL ASSOCIATION OF STATE WORKFORCE AGENCIES (NASWA), AND DEPUTY CHAIRMAN, NORTH CAROLINA EMPLOYMENT SECURITY COMMISSION, RALEIGH, NC

Mr. WHITAKER. Thank you.

First, I would like to ask your consideration accepting a statement from the State of New York that came in after the deadline.

The CHAIRMAN. Absolutely. You bet.

Mr. WHITAKER. Thank you.

[The statement appears in the appendix on p. 114.]

Mr. WHITAKER. Chairman Baucus and members of the Senate Finance Committee, thank you for the opportunity to be with you today and testify.

My name is Tom Whitaker, and I am serving as president of the National Association of State Workforce Agencies, and I also am deputy chairman of the North Carolina Employment Security Commission.

As our economy enters the 20th month of economic recession, the employment situation continues to deteriorate in North Carolina, and in many parts of the Nation.

Over the past year, North Carolina's unemployment insurance rate has increased from 6.3 percent to 11 percent, and in the process we have lost over 222,000 jobs. North Carolina's economy reflects a trend nationwide, and here are some of the sobering statistics to share with you.

The economy has lost 6.9 million jobs since the beginning of the recession in 2007. The number of unemployed persons reached 14.9 million in August, compared to 7.7 million at the beginning of the recession. Over 9 million workers are receiving either State or Federal unemployment insurance benefits. Most troubling to us is the lack of job creation. In August, we lost another 216,000 net jobs, despite over 4.1 million workers returning to work.

With the unemployment insurance rate projected to peak at 10 percent early in 2010, the following are some of the challenges that we see facing the States.

The Federal Government does not provide enough funding to the States to operate their unemployment insurance systems in a proper and effective manner, as required by the Social Security Act. The shortfall has been more than $500 million annually. Most States are processing their unemployment insurance claims on outdated computer systems that were developed in the 1970s, some in the 1980s, to handle a fraction of the current workload that is facing our States.

Some 21 States have already borrowed to pay unemployment insurance benefits in the amount of $14 billion. The U.S. Department of Labor is now projecting that as many as 40 States will have to borrow some $90 billion by the end of 2012.

The Recovery Act was a lifeline to the States and positive effects are beginning to show, but with some 15 million workers still unemployed and the economy generating only about 3 million job openings, Congress should examine other approaches to help the unemployed until we have substantial job growth to put the unemployed back to work. Here are some of the options we would suggest.

Number one: increase funding for re-employment services, which are proven to get workers back to work faster. Reducing the average duration of unemployment by just 1 week would save about $3 billion in the Federal budget. While $250 million was provided in the Recovery Act for these services, States will need additional funds to meet current high workload needs.

Two: increase funding for re-employment and eligibility assessment grants to make sure UI claimants are searching for work through individualized consultation and assessments. Some 34 States have secured these grants from the U.S. Department of Labor, but more funding is desperately needed to meet the high demand that we are facing today.

Three: enact changes to the Shared Work Program, with passage of Senator Reed's legislation S. 1646, so employers would have the ability to reduce hours, rather than lay off their workers.

Four: correct inequitable treatment in the Extended Benefit Program so State and local governments do not have to reimburse their cost to the extended benefits and will be treated the same as other employers with the same cost.

Five: lessen the administrative burden of extended benefits work search requirements by reforming the documentation requirement. Such change would bring the EB claims process into harmony with current methods being used to take claims in our States.

And NASWA would like to thank this committee for helping insolvent States with the Recovery Act provision of waiving interest on trust fund loans until January 2011. We would ask you to please consider whether that could be extended, considering the projection that over 40 States will have to borrow up to $90 billion before this recession is over.

On the issue of the Emergency Unemployment Compensation 2008 extension, we understand and know, like you do, that many workers are exhausting their UI benefits. The NASWA board of directors will meet next week to consider a formal position on the extension of EUC08 and whether to add additional weeks. We will submit a full report to this committee as soon as that board meeting is finalized.

Finally, in my written testimony, I have summarized approaches for many of the States, and their approach is to return people to work quickly. Many States are using Recovery Act funds to hire more staff, enhance job skills, match technology, increase training, offer tuition-free programs, initiate more rapid response teams to respond to plant closures, provide return-to-work incentives for employers, and quite frankly, anything they can think of to return the unemployed to work as quickly as possible.

I want to thank you again for the opportunity to be with you today and would be more than willing to answer any questions you have now or later.

Thank you, again.

Senator STABENOW. Thank you.

[The prepared statement of Mr. Whitaker appears in the appendix.]

Senator STABENOW. In the absence of the chair, it is my pleasure to recognize Dr. Burtless. Welcome.

STATEMENT OF DR. GARY BURTLESS, SENIOR FELLOW IN ECONOMIC STUDIES AND WHITEHEAD CHAIR IN ECONOMICS, THE BROOKINGS INSTITUTION, WASHINGTON, DC

Dr. BURTLESS. Thank you, and thank all of you for the opportunity to participate in this hearing.

The topic is the emergency extensions in unemployment insurance. These are going to expire for many workers at the end of this year. Let me summarize two main points: one, about the extension of the emergency program, and second, about the necessity for longer-term reforms in the basic UI program.

Last year, and earlier this year, Congress authorized extensions of unemployment benefits through the Extended Unemployment

Compensation, or EUC, program and in the existing Extended Benefits, or EB, program. The two programs provide Federal funding for up to 53 weeks of EUC and EB benefits. All the benefits are paid in full by the Federal Government.

The extensions are on top of the 26 weeks that workers can ordinarily receive under States' regular programs. In 28 States right now, including 9 of the 10 largest ones, laid-off workers are eligible for up to 79 weeks with UI protection. Workers in the other 22 States are eligible for between 46 and 72 weeks, depending on their unemployment rate and on the decision of the State legislature to enact special provisions to trigger extended benefits.

Now, under current law, workers who are collecting a tranche of benefits under the EUC or the EB program at the end of December will be able to collect the remaining benefits under this tranche, but they will not be able to begin collecting a new tranche of benefits after the beginning of the year. This means a worker who exhausts 26 weeks' worth of regular benefits after January 1 may not be able to collect any additional benefits after regular benefits are exhausted.

The most urgent policy requirement at the moment is to ensure that these emergency programs are extended so that workers can begin to receive EUC and federally funded EB benefits after the end of this year.

As I show in my testimony, a record percentage of workers who are collecting regular UI benefits are now exhausting those benefits, and this is in line with the last statistics on the number of unemployed workers who have been without work for 27 or more weeks. That also is a record high.

Measured in terms of the jump in the unemployment rate, measured in terms of the percentage decline in payroll jobs, measured in terms of the duration of the down-turn, the current recession is the worst one we have experienced since the Great Depression. The number of job seekers greatly outnumbers available job openings. We have heard estimates of 5:1 or 6:1 in this hearing. Finding a job right now is very tough, probably tougher in many parts of the country than it has been any time in the past 70 years.

Under these circumstances, both humanitarian concerns and the need to maintain consumer spending suggest we should extend the emergency UI programs well into next year. I believe the program should only be scaled back when it is plain that job finding for the unemployed, including the long-term unemployed, has become easier, and this is not going to happen anytime soon, certainly not by January of next year.

Critics of extended UI benefits sometimes make two kinds of claims, and we have heard both of them in this hearing so far. First, they believe the extra benefits have only a very slight effect in maintaining or boosting consumer spending because of some offset effects elsewhere in the economy. This is very dubious. Nearly all of the extra money goes to workers who have already been jobless for at least 6 months. The unemployed are usually drawn from the ranks of middle- and lower-income workers. Many do not have much savings and may have only limited access to credit when their layoff begins. After being unemployed 6 or more months, their resources are even more depleted. If the Nation is going to appropriate an additional $10 billion or $15 billion to help hold up consumer spending, it is hard to imagine a group of people more likely to spend the money quickly than workers who have been laid off and then unemployed for 6 or more months.

Second, critics argue that extended benefits actually help push up the unemployment rate by discouraging workers from accepting available jobs. It is certainly the case that longer benefit durations allow some workers to reject job offers that they would accept if they had no other source of income.

But, of course, this is part of an intended effect of the program. By allowing workers to reject clearly unsuitable employment, the program allows them to look longer and harder for a job in which their skills are going to be fully utilized. By improving the match between workers and the necessities of the jobs, UI can improve the average productivity of the workforce. In fact, that is why every rich industrialized country has such a program. To be sure, longer unemployment protection also allows workers to reject jobs even when they are unlikely to find a better one.

Now, in a tight labor market, this will tend to increase average unemployment and may reduce average employment. But this hardly describes the situation we face today. There are 15 million unemployed workers; only about 60 percent of them receive any kind of unemployment benefits. If UI recipients reject some kinds of jobs as a result of the income protection they receive under UI, there are still 6 million workers presumably eager for work waiting in line for the opportunity to get a job.

This greatly exceeds the number of job openings that are currently available. While some UI recipients may remain unemployed a little longer because they receive income protection, nonrecipients will get jobs a little sooner. It is hard to see why any job vacancy will take any longer to fill. At the moment, our problem is not that workers are too picky in accepting available job openings. Our problem is that there are too few job openings for the unemployed to fill.

Let me close with a couple of long-term UI issues that I think Congress should address.

First: clearly the pre-stimulus version of the Extended Benefit Program was not working. In many States with high and rising unemployment rates, the program did not trigger on automatically as it should. Frequently, the program triggered off in the past, even though it remained very hard for unemployed in the State to find a job. The program should be fixed.

Second: the financing of UI is hopelessly out of date. The maximum wage on which the Federal unemployment tax is assessed is $7,000. This is the year-round wage of a part-time, minimum-wage worker. In more than half of States, the maximum taxable wage is less than $10,000 a year. It is scandalous that we impose the maximum UI tax on the wages of workers with such low incomes. The financing system should be fixed.

Finally, over the past 50 years, the percentage of unemployed workers suffering long-term unemployment has been on the rise. To deal with this problem, we may have to modify both the employment services that we provide to the unemployed and the basic package of income protection that we provide to them under the basic UI program.

Thank you for listening to me. I am happy to answer any questions.

[The prepared statement of Dr. Burtless appears in the appendix.]

Senator STABENOW. Thank you, very much, to each of you. And as a temporary chair, I will move forward with comments. I do also want to indicate that, as we all know, we are working very diligently on health care at the moment, and the chairman will certainly be back. This is all part of the same—oh, the chairman is back. [Laughter.]

Mr. Chairman? Would you——

The CHAIRMAN. Madam Chairman?

Senator STABENOW. Would you—I really like the sound of that. Thank you, Mr. Chairman. [Laughter.]

Well, I was about to indicate that you have many things on your plate at the moment, and I appreciate the chance to proceed for a moment. And I think that maybe it is appropriate, given the fact that Michigan has the highest unemployment rate in the country right now, that I have the opportunity to ask questions.

Fifteen percent unemployment rate, hundreds of thousands of workers have been displaced—it is expected that 310,000 jobs will be lost in Michigan in 2009. People in Michigan want to work. This is not about people not wanting to work. This is about the fact that we have a transition going on in the economy, as you talked about, Dr. Campbell. And when we look at the fact that 99,000 people will exhaust all of their unemployment benefits by the end of the year in Michigan, these people want to work. They do not want to be unemployed.

And I could go on and on with the numbers. We are engaged in training aggressively and focusing on clean energy as a strategy for new jobs in our State. This is not about people not being focused on the new economy. And, Mr. Holmes, I appreciate the fact that it sounds like you think the Recovery Act is working, and I appreciate that, but the reality is this: right now we are in a situation where the average benefit on unemployment is $325 a week, with the help of the recovery plan.

I find it shocking at this point that—even in good times it is hard to believe that the reason why somebody would stay on unemployment benefits, but certainly in these times, when people are trying to pay the bills and just keep a roof over their head and their family's and put food on the table and get job training, I find it hard to believe $325 a week is an incentive.

But, I go to the question of transition and job training.

Dr. Campbell, I want to ask you this first, but then ask anyone else to respond.

We know we are in a position right now where jobs in many areas of the economy are not coming back. We understand we are in a transition. But what do you propose, as people are going through job training, as people are going through re-education? It takes time to do that, it costs money to do that. I am very pleased that the Recovery Act has job training dollars, and we need to be more aggressive on that point. But, what do you do when you are in a State like mine in Michigan, going through fundamental transition where the job will not be there, where you have to go through re-training? How do you pay the bills during that process, if we do not extend unemployment? What do you say to people who are just asking for a bridge, just to help them keep a roof over their head, while they get through the training that they need?

Dr. CAMPBELL. Right. Thank you for that question. That is, again, where the rubber meets the road, I think in this whole debate. And I am not a labor economist, so I have not looked at specific programs and policies at the State and local levels, so I will just speak from my experience in small business, and we have worked with the workforce boards at the State and local level. And I am wondering if there are ways that we could leverage some of the programs and safety nets that are in place there and some of the existing spending that we have, because I believe at the Federal level there is a very fine balance of the interests of people who definitely need to pay the bills and to get income, and then there is the definite need of small business owners to create that job to give that person the long-term income. That was the deeper need.

Senator STABENOW. Then there is no question. I mean, I am a huge supporter of small business. There is no question we need to be doing that for small business.

But, when you say other programs, are you suggesting, other than unemployment, we expand public assistance, we expand food stamps? What would you suggest we expand for people who currently are just trying to get through the job training?

I guess that is the question, because this is not theory, I mean, when this is where the rubber meets the road. The moral hazard is what is happening to families in my State and across the country right now. So, for us, it is really not theory. So, if you want to suggest another program to provide assistance with new bureaucracy, new administrative costs——

Dr. CAMPBELL. I believe that this is where, perhaps, others on the panel might know more, because I am not a labor economist.

Senator STABENOW. I would be happy to hear Dr. Burtless. Would you? I am sorry. I am anxious of the time. I am running out of my time.

Dr. BURTLESS. When the unemployment level is 15 million and the number of job openings is estimated to be 3 million, you have to ask yourself the question: does it make sense to require people collecting unemployment insurance to be available for work, at least all of them?

It seems as though there is a role for training the people who have options to improve their credentials so that, when the economy gets better, they can more easily find jobs. It is going to be better for the economy more broadly because we will have a better trained workforce when that occurs.

But, under current rules, as I understand it, there are real limitations on whether UI recipients can continue receiving benefits while they are engaged full-time in becoming educated. In a very severe recession, I question whether that rule makes much sense for all of the unemployed.

Senator STABENOW. Thank you, Mr. Chairman.

I certainly have other questions, but I will defer them, as my time is up. Thank you.

The CHAIRMAN. Thank you.

I guess a basic question, for me anyway, is what is different about this recession compared with others that justifies continuing to add more weeks of benefits? I mean, some say that we are about to run to the end of the string here as we had in prior recessions. But is there anything different about this recession that requires different treatment?

Ms. SHULMAN. Absolutely, Mr. Chairman.

I mean, this is a situation where we have historical long-term unemployment, where people have been looking for jobs endlessly, and cannot find them; as I stated, six people for every one job. And we are in a situation where, as economists are in agreement, that we are looking down the road, in 2010, at unemployment at least 9.5 or 10 percent, or it could be more. I do not think there is anyone who is saying that somehow, merely because we are starting to turn the corner, that unemployment will decrease at this point.

So, what we have is a situation where we are in an economy where there are not enough jobs. As Senator Stabenow mentioned, her State is one of them, but it is across this country where we have a situation where long-term unemployment continues to be a problem.

The CHAIRMAN. So your basic argument is, whether the recession continues or unemployment rates remain high, we extend benefits?

Ms. SHULMAN. Absolutely.

The CHAIRMAN. Very simple, as far as you are concerned?

Ms. SHULMAN. Very simple.

But there is one other thing I want to address as well, because there is sometimes this choice between small business and extension of benefits. I think we need to remember that it is not just workers and their families that unemployment insurance benefits help. In those communities where there are small businesses, when you can have consumer spending, that consumer spending creates jobs in small business and maintains small businesses in those communities. So, not only is it important for workers and their families, it is important for the health of communities that we extend these benefits.

The CHAIRMAN. What about this argument—in fact, I think it was voiced by one of the panelists—that with the extended UI, that those benefits get embedded in the structure of our economy, and it is difficult for employers to later hire, or difficult for people who are receiving unemployment insurance benefits to go back to work because they are kind of used to getting their unemployment benefits. I am just curious. Maybe I am misstating the point, but maybe as Mr. Holmes said, something along those lines——

Dr. CAMPBELL. It strains credulity.

The CHAIRMAN. Maybe I will let Mr. Holmes state it, more clearly than I tried to state it. At least I do not want to put words in your mouth, Mr. Holmes.

Mr. HOLMES. Yes. Thank you, Mr. Chairman.

It is actually something that is fairly well-known in the research and has been adopted by CBO, that making benefits available to all regular UI recipients for an additional 13 weeks increases their average duration of unemployment by 2 weeks, and that increasing UI benefit levels by 10 percent increases the average duration of unemployment by about 1 week.

The CHAIRMAN. I am sorry. I missed that, Mr. Holmes, I was distracted.

Mr. HOLMES. Excuse me.

It is a CBO, Congressional Budget Office, assumption that they build into costs of Federal unemployment extensions that there is an impact of those extensions that is approximately 2 weeks of added duration for State unemployment insurance if there is a Federal extension of 13 weeks. And the basis for that is studies that show individuals who—let us say that the exhaustion is at 26 weeks—when they get to 20 weeks, if they know that there is another 13 weeks of Federal benefits coming, then they defer their work search in earnest because they know that they will have an additional 13 weeks.

The CHAIRMAN. What about that, Dr. Burtless? What do you think about that?

Dr. BURTLESS. Well, I think that the research literature does indicate that, for the people collecting UI, long extensions of benefits do increase the duration of their job search. That has a beneficial effect for some of them in the sense that they can find better jobs, if they look longer and harder for better employment. That is one of the reasons we have the program.

But, in the midst of our serious recession where there are very few job openings, the fact that some of the unemployed may search longer for jobs, makes it easier for the 6 million people who are not collecting unemployment benefits to find employment.

It is very unlikely, it strikes me, that there are job vacancies going unfilled because of the extensions in benefits, given how few job vacancies there are. Those job vacancies are going to be filled by some desperate person, either collecting unemployment insurance or not collecting unemployment insurance.

I agree with the CBO estimate. I think it does represent the best estimate of what the effect is on the people collecting unemployment insurance. But that is not an estimate of what the effect is on all of the unemployed workers in the United States. Some of them gain if the unemployment insurance recipients spend a little longer looking for a job.

The CHAIRMAN. My time has expired. All right.

Senator Bunning?

Senator BUNNING. Thank you, Mr. Chairman.

Just for background information, Kentucky's unemployment rate in July was 11 percent which is 4.4 percent higher than it had been a year earlier. The national unemployment rate is now 9.7 percent.

I want to go back to the stimulus bill because that was a complete borrowing, the total stimulus. And inside that, here is what we did for the unemployed.

Unemployment insurance is administered by the States and financed 50/50 by Federal and State governments. The State and Federal portions are funded by payroll taxes that are deposited—somebody mentioned the rate, that you could only go up to $7,000 on certain earnings, and you thought that was unfair. But the fact of it is that this is deposited into a State account in the Federal

Unemployment Trust Fund. Unemployment insurance benefits are generally capped at about $300—somebody mentioned $325—and normally that was up to 26 weeks. However, extended benefits, EBs, of 13 to 20 weeks, financed by both Federal and State governments, may be added during a period of high unemployment.

In June of 2008, Congress created a temporary additional 20- or 33-week emergency unemployment compensation program, for a total of up to 53 weeks beyond the normal 26 weeks of benefits.

The stimulus bill passed in February extended EUC and made it 100-percent federally funded through the end of 2009. It also offered 100-percent Federal financing of the EB program in 2009, if States adopted expansion of the UI program.

The bill also created a $7-billion UI modernization fund for the States that reform their UI program. The bill increased the weekly unemployment benefits by $25 and exempted the first $2,400 in benefits from income taxes in 2009. In addition, the bill waived interest payments and accruals on Federal loans to State Unemployment Trust Funds through December 31, 2010.

For Kentucky to meet that program, they had to borrow from the Federal Government $338 million to pay their unemployment benefits to those who applied.

Now, to get to a question. It is a long entrance to get to a question.

The CHAIRMAN. We are waiting, Senator.

Senator BUNNING. All right.

For any of our witnesses: Congress, as I said, just passed all these things when the unemployment rate was 8.1. That was the stimulus bill. That is what the rate of unemployment was when we passed it. Several months later, the national unemployment rate is now 9.7 percent, and we are having another discussion of extending unemployment benefits.

Will we be having a similar discussion in another 6 months or a year from now? When will it end? In other words, are we going to have a jobless recovery, 15 million unemployed, or should we be spending more money to create jobs?

Mr. Holmes?

Mr. HOLMES. Yes. Thank you, Senator.

I think that the discussions will definitely be ongoing and that we really should be watching, as I indicated in my testimony, the seasonally adjusted initial claims rates, which are indications of what we can expect in the future. Those are trending down. But how far will they trend?

Senator BUNNING. Yes. But everybody knows that, in a recession, the jobless rates are a lagging indicator of the recession. In other words, for maybe another 9 months we will probably have not-too-attractive unemployment rates.

Mr. HOLMES. Correct. And I think the other piece of that is what is happening with new employment. So I think job creation is the key, but I think it is something that we will need to monitor, not just next year, but probably for a couple of years after that to try to craft the right solution to make sure that the recovery continues.

If we spend too much money or obligate too much money that pushes up debt or taxes, that is going to be a drag on the economy and increase unemployment. But if we fail to address some of the, what are usually specific labor market area needs, such as Senator Stabenow was talking about, then that creates a problem as well. So, it is something that needs to be monitored closely, and it is going to be around for a few years.

Senator BUNNING. Everybody knows that, not only did we put those things in the unemployment compensation reimbursement, but we also put an awful lot of money into what was supposed to be stimulus that was going to create jobs. And we seem to be having trouble getting that money out the door in time to soften the increase in the unemployment rates.

Does anybody else have suggestions how we can get it out of the door faster so we can get the economy stimulated quicker?

Dr. BURTLESS. Well, the spending on unemployment benefits and on the tax reductions did go out the door very quickly.

Senator BUNNING. Those are fine. I am talking about the other stimulus money that was supposed to ease the job loss.

Dr. BURTLESS. My interpretation is that members of Congress and the administration—bearing in mind the experience of the United States over the last 60 years—acknowledge that it takes a long time to establish programs for capital investment by the government that are well thought out and efficiently managed and well-designed. So a lot less than a third of the total stimulus was spent on those kinds of activities, in the expectation that the economy is going to recover.

By the time a lot of that capital spending gets out the door, it is very likely the United States economy will be in recovery. The government, in building the roads and doing the other projects, will be competing with private businesses for the resources to do those kinds of projects. I think members of Congress were cautious about whether that makes good sense.

If it is a very long, severe recession that lasts for 3 years, those kinds of programs make excellent sense, but, if it is a more normal recession of the kind that we have had for the last 60 years, then I think the focus of Congress was on making money available through the tax system, through unemployment benefits, and through fiscal relief to State governments so that they would not raise taxes and reduce their spending. I personally think, that was a very sensible judgment.

The CHAIRMAN. All right.

Senator Wyden?

Senator WYDEN. Thank you very much, Mr. Chairman.

Ms. Shulman, let me ask a question of you.

We have thousands of folks in our State, just devastated, and they are walking on an economic tightrope, now balancing their food bill against their fuel bill. At the end of the year, something like 11,000 people, once again, will be out of benefits unless there is an extension.

Tell me, if you would, as you all assess it, what the implications are for high unemployment States, like mine, that do not get the additional 13 weeks of unemployment benefits?

Ms. SHULMAN. Well, Senator, our experience throughout the country, especially in the high unemployment States, is that unemployment benefits have been the difference between homelessness and staying in your home. It has been the difference in being able to go out and buy groceries and not having enough to put food on your table. It has been the difference between being able to provide the basics for your children and continue every day. I mean, we are not talking about a lot of benefits. As we have talked about benefits here, we are talking around $300.

Senator WYDEN. Survival benefits.

Ms. SHULMAN. It is survival benefits.

But, without them, in fact, a recent study showed that 800,000 Americans would have gone into poverty, but for unemployment benefits. So, it is the difference between staying just above poverty for many Americans and slipping into it. So it is absolutely essential for Americans to have unemployment benefits to just keep their head above water.

And as I said earlier, it is not only important to workers and their families, but it is very important to their communities as well because, as people go under, States and localities have to come up with the benefits to provide for them and also, as I said, it helps as a stimulus to the businesses in their communities as well.

Senator WYDEN. My understanding is that there has been an analysis of the consequences of the last recession as it related to unemployment benefits, and one authoritative study found that, for every dollar of unemployment benefits, you would generate $2.15 of economic growth. And one of the major studies also found that the provision of unemployment benefits prevented the GDP from dropping, and dropping significantly, somewhere in the vicinity of 13 percent.

Ms. Shulman, would you or any of your colleagues here as witnesses like to comment on that?

Ms. SHULMAN. Well, one of the things I think that has been talked about here is the concern around the deficit. But I think the thing we have not looked at is, what is the cost of not doing anything?

So, for instance, if we do not provide unemployment benefits, we have more homeless, we have more people trying to just make ends meet, and we have an increased burden on localities and the States. And, as I said, it acts as a stimulus. I mean, what we have are people spending that money because most of these people are either low- or moderate-income Americans, and every dollar coming in, in terms of unemployment benefits, is immediately being spent in their communities and, as I said, is a real investment in creating a stimulus for our economy and getting it back on track.

Senator WYDEN. Would any of you like to comment further with respect to the economic ramifications now?

Dr. CAMPBELL. I do not know the exact State that you are talking about, but the studies that I have looked at that have found impact numbers of that magnitude often do not take into account all of the effects of the program. They usually only look at the one positive effect of smoothing consumption and do not look at the effect on interest rates, and especially if the money is borrowed versus using the actual un-insurance benefit program that is paid into via premiums.

There is a bigger effect on interest rates when the money is actually borrowed, rather than financed currently. And, also, there is a productivity effect that gets taken into account again. It is marginal, but, when aggregated across the broader economy, that is a lot of lost GDP, and so our own studies have not found that magnitude.

Senator WYDEN. Why don't we keep the record open, and you can offer up your study as well.

It seems to me that, at the end of the day for the workforce, this is something of a game of musical chairs. You have 15 million workers looking for jobs. Only a tiny fraction of those—that number constitutes jobs that are available—so we have millions of workers who are left without a place to sit when the music stops. And I just do not think now is the time to turn our backs on workers who, despite their best efforts, have not been able to find jobs.

I am interested in creative, entrepreneurial approaches to help those workers. We have worked with some of your organizations, for example, on a successful program that a number of States are trying to let unemployed workers start up their own small businesses and become entrepreneurs.

Senator Kennedy—it was an extraordinary honor for me to champion that cause with him. So, we all look for a variety of approaches to help workers who are hurting, but, I think, Ms. Shulman, you put your finger on it. Without this additional 13 weeks for workers who really have nowhere to go, no additional opportunities, they are going to really fall into an economic abyss, and that is unacceptable. And I thank you all for your presentation.

I am advised that Senator Menendez is next for questions.

Senator MENENDEZ. Thank you very much.

Dr. Campbell, even if your proposition, your argument, that unemployment benefits incentivize people to remain unemployed is correct under normal economic circumstance—a premise which I personally find highly doubtful given that the average benefit is only about $325 per week—how do you make that argument in the current economy? How do you deal with the numbers of 3 million, 15 million, and 33 percent? Three million jobs, 15 million people, ostensibly looking for jobs, whom you want to incentivize by taking away their unemployment benefits, and 33 percent of those who have been unemployed being unemployed for more than 26 weeks. So are they all lazy?

Dr. CAMPBELL. Again, this is an average effect on just the entire search effort and things like that across the whole population, so we are not talking about a lazy person who is just sitting around. We are talking about——

Senator MENENDEZ. You are saying that they are not incentivized to go look for a job if their unemployment benefits continue?

Dr. CAMPBELL. On the margin. So there are these tiny little tradeoffs where you get nudged, perhaps, to not——

Senator MENENDEZ. So, if I nudge you, if I take away your unemployment benefits and I nudge you, and there are 3 millions jobs—I mean I am not good at math, so maybe you can help me here.

There are 3 million jobs, there are 15 million people looking for those 3 million jobs. The last time I did my division, that means there are 5 people for every single job available. So I take away all of their unemployment benefits. I have now fully incentivized them because there is no money coming in, and there is no money to pay their credit card bills, there is no money to pay their mortgages, there is no money to put the food on the table for the kids. I think I have them incentivized. So now I have them fully incentivized, they all go out, hustle the best they can. Maybe they take a job that is far inferior to their skills and their work experience in the past, fill up the 3 million jobs. It is 12 million people who do not have a job.

What am I supposed to do with those people in this society?

Dr. CAMPBELL. Sir, I think you have identified exactly what we are talking about here. It is not so much an unemployment problem as an employment problem. We really need to find ways to get those 3 million more jobs for these people, and what is the best way to do that? And, I think, Mr. Whitaker here can say——

Senator MENENDEZ. There are 12 million more jobs needed.

Dr. CAMPBELL. I am sorry, 12 million jobs.

Senator MENENDEZ. So, all right. So, I agree with you. We want to create more jobs. But we are not going to create those jobs overnight. There is this criticism of the very program that some of you who criticize unemployment benefits even recognize, that some things have happened as a result of that. You cannot have it both ways. You cannot tell us that unemployment benefits are not good because they dis-incentivize the individual to go out to work, and then at the same time say that some of the economics of what is happening in terms of the economy and the number of initial claims peaking and being on a downward trend, and GDP and all of that, and then at the same time say, well we do not have those jobs presently, they are not going to be created overnight. You still have the 3 million jobs, 12 million people who do not have a job, looking for a job. Those jobs are not there. What are we supposed to do with those people? Tell them to go out in the cold? Yes?

Mr. WHITAKER. Senator, the information that we received in NASWA and other places is that the information that the Congressional Budget Office is using, the research to make those statements, is over 20 years old. It is not current research. And, while it could be debated, seriously debated that, in a full economy of 5 or 6 percent, maybe there would be some delayed effect if the person could receive extended benefits, as you said, that is not the case today. We have good applicants with great work records chasing 3 million jobs.

I have not a single employer in North Carolina complaining about failure to fill a job. What they are complaining about is the long lines of applicants that they are having to wade through to fill a job. We have millions of people searching for jobs, 15 million searching for 3 million.

So, the question is not the disincentive, at least in my State and the States that I have talked to. The extended benefits did not cause that issue and did not extend to it. Probably, we do need some current research on that, if we want to use that in the current debate.

Thank you.

Senator MENENDEZ. Mr. Holmes, as I look at your testimony, on page 4, you say that "ARRA significantly increased the funds available to unemployed individuals since February and assisted many individuals in making necessary purchases, paying credit card minimum payments, and avoiding greater losses in savings that otherwise would have been the case."

If that was not the case, then we would have had more people who clearly would have defaulted. They would have defaulted on their mortgages. If they default on their mortgage, go into foreclosure, now we have a vicious cycle of less property values. Less property values mean the municipalities have less resources. I remember that as a mayor. And we have a vicious cycle going down.

So, it cannot be both ways. Everything that ARRA did was wrong, particularly as it relates to giving people the resources in this particular economy at this time, with only 3 million jobs and 15 million people—and you, yourself, recognize that—or it was a good thing in order to deal with some of the unique challenges of this economy. Which one is it?

Mr. HOLMES. Well, thank you, Senator.

What I was trying to convey there is that there certainly was value in the Recovery Act with respect to providing those funds to meet necessary needs of individuals who are unemployed, no question about that. There was value.

Of course, we make choices when we spend money or do not spend money, about what the impact is on the debt situation for the country and what that does in terms of taxes long-term. So, there was value in the spending.

The question now, I think, as we are recovering from the recession is: what are the appropriate choices now about the use of funds? And if, as Dr. Campbell indicates—and I agree—that the issue is primarily one of job creation, that is probably the goal that we should be looking at, more so than assuring that some number of additional weeks are paid in unemployment.

If it is training, then under current law, individuals who are in approved training continue to receive unemployment compensation while they are in approved training. And there are a number of programs that we support that connect individuals directly into employment. Job search assistance also——

Senator MENENDEZ. But job search assistance for jobs that do not exist is a challenge.

So then, in essence, what I hear you say—and I will just finish with this because my time has expired.

Mr. HOLMES. Thank you.

Senator MENENDEZ [continuing]. Is that we should sacrifice the 12 million who could not possibly get a job based upon the job availability now, to try to create jobs, and in the interim hope that they will be able to hang in there until the jobs are created.

Mr. HOLMES. Well, I think the way I would put it is that we should manage the situation with reference to specific labor markets and numbers to try to serve both purposes. That is, make the transition effective for those individuals, but recognize that the primary goal for them is going to be sustainable employment, and that is really the key.

Senator MENENDEZ. We all want sustainable employment. The question is the time frame it will take to create the sustainable employment.

Mr. HOLMES. Exactly.

Senator MENENDEZ. In the interim, there are people who go hungry. I mean I just do not quite follow. There is a gap here, and I do not see how you can have a gap.

Mr. HOLMES. Could I just respond?

One of the things we have to recognize is that the unemployment insurance system is narrow. It is a partial wage replacement program. It needs to be coordinated with programs like TAA, WIA, and other programs that can effectively make this bridge better than just a partial wage replacement program. That is all unemployment insurance is. And so, we need to look at the whole of the situation and devise the appropriate solutions.

Senator MENENDEZ. Thank you.

Senator BUNNING. Thank you very much. I guess you are the chairman now, the Senator from New Jersey, since everybody else is gone.

A number of you seem to suggest that one of the reasons for today's high unemployment is the lack of jobs. I believe statistics you cite, where there are five or six unemployed workers for every available job, I believe this statistic comes from the "Help Wanted Index" published by the Conference Board.

This statistic is used to track the number of "help wanted" ads in roughly 50 newspapers around the country. The obvious limitation of this index is that it only tracks the jobs that are advertised in the newspaper, and it only tracks the advertised jobs in those 50 cities.

Now, the Conference Board has developed a new index that tracks jobs advertised online. It is not clear to me how representative this index is for the entire country, but I think it is safe to say that many jobs are not advertised online either. There is, however, another survey that is not mentioned anywhere. The survey is conducted by the Bureau of Labor Statistics and tracks the total number of newly hired workers in the economy. It is based on a nationally representative sample.

The survey is called JOLTS. It is the Job Opening and Labor Turnover Survey. This survey shows that more than 56 million new workers were hired in 2008. During the first 6-month period of this year when the number of people unemployed more than 6 months reached 5 million, there were more than 20 million new workers hired. Is it more accurate to say the reason people are unemployed is that there are no jobs, or is it more accurate to say that the jobs are in different occupations or in different locations than the people who are unemployed?

And, I would like all of you to address that, since we are hiring, and the Bureau of Labor Statistics said 76,000 people in the last two jobs are newly hired workers. So, we have jobs available, but the ones that have gone out of work are not the right skill set to get the new jobs that are available.

Mr. WHITAKER. Senator, if I may start to answer that.

Senator BUNNING. Yes. Please do.

Mr. WHITAKER. I think Senator Baucus asked, what is different in this recession than the previous ones? And I can share with you that, in my State, one thing that is different is that in previous recessions—and I have been in this business for 36 years—in our State there is a short term of unemployment when the plant closes, but every worker there and every owner of those textiles, manufacturing, lumber, tobacco, they knew those plants would reopen in 4, 6, 8 weeks, and there was structural unemployment, whether it was half-time or so forth. But the jobs were there. Those jobs are no longer there, and workers do not have jobs. It is a structural change.

Senator BUNNING. Well, that is what I said earlier. Is this going to be a jobless recovery?

Mr. WHITAKER. And I think we are looking at a jobless recovery, at least in our State, and a structural change so that we have to re-train. We have to re-train for a global challenge. How we do that is open to debate, and I think reasonable people would come together and propose any number of things, as Mr. Holmes suggested. There is a package that is probably going to have to be put together to address this issue.

But, what do we do? I mean the Conference Board estimates there are 3.3 million available jobs, unduplicated. The Department of Labor has a report, JOLTS, that has 2.4 million, so we come up with an average of 3, but the fact is that we have 15 million people unemployed. We do put people back to work through unemployment service, workforce services, private means, everything. Every day people are finding work, but the problem is, right now, we are not generating enough jobs to take care of the structural unemployment, long-term unemployment, just people losing their jobs. So it is a 5:1 ratio, and that is the recession we are in. We have to find a way to create enough jobs as fast as we can.

Senator BUNNING. Mr. Whitaker, how long do you think that will take?

Mr. WHITAKER. Again, I am not an economist, but I hear different projections. It is sometime next year before we start to see real recovery.

Senator BUNNING. Well, I am, and I could not guess.

Mr. WHITAKER. And I could not, but I just read all the reports, and everything I see is sometime next year. Maybe every time it is always next year, but I am certainly hoping.

Senator BUNNING. Ms. Shulman?

Ms. SHULMAN. First of all, the 6:1 is based on JOLTS as well, but the more important thing that you point out is, what we have is a situation where we have real restructuring of our economy, and I think it is a real problem because, as I said, in past recessions, what we have seen is people going back to similar jobs in similar industries, and today that is not going on.

Senator BUNNING. And it is not going to happen.

Ms. SHULMAN. And so what we are seeing is obviously there has been money put forward to invest in renewable energies. We are seeing certainly an increase in health care services and a variety of other industries. But it is going to take time, as Senator Menendez said. It is going to take time to create those jobs and stimulate those parts of the economy to create those jobs. And, in the meantime, what we need is to ensure people do not fall basically into an economic abyss, and communities do not do so.

Senator BUNNING. Are you suggesting, then, a permanent unemployment insurance?

Ms. SHULMAN. Absolutely not, Senator.

Senator BUNNING. Well, what are we going to do with the 12 million who seem to be going to be short a job?

Ms. SHULMAN. Well, what I think we are seeing is certainly the economy is starting to turn around. I mean, there are indicators that show that it is moving in the right direction. What NELP has proposed is an extension through 2010. Obviously, we believe that, at least until 2010, we need to do that, because what we are seeing is all the indicators with regard to long-term unemployment, the economy in terms of the unemployed, indicate that drastic measures are needed through 2010.

Senator BUNNING. And then are you suggesting that we go out and borrow the money to pay those benefits?

Ms. SHULMAN. What I see is that the Federal Government right now, obviously through the Recovery Act, has essentially subsidized unemployment.

Senator BUNNING. Yes, it has.

Ms. SHULMAN. Yes, as you stated.

And I think it is absolutely essential, as I have stated earlier. Not only do I think it is essential for workers and their families, I also think it is very important for communities and States, especially in States like Kentucky where you have high unemployment, that this money coming to lower- and middle-income workers, for the most part, adds to stimulating that economy and helping to create jobs in the future.

Senator BUNNING. Only one problem. To get the higher benefit that the Federal Government passed at the end of this year, we are going to have to increase taxes on our businesses to pay that additional benefit, and that is kind of an oxymoron. So, if the Federal Government comes in with their share, the Commonwealth of Kentucky is going to have to increase taxes on small business, and all business, to get their share, or go borrow it from the Federal Government, which is what we did this year.

Ms. SHULMAN. Well, NELP was proposing, actually, that you put together the emergency program under the Recovery Act with the EB, so that, in fact, the States are not paying that part of the program, understanding that the States are in dire circumstances and it would be far better to merge those programs and provide extended benefits through those programs.

Senator BUNNING. Thank you.

The CHAIRMAN. Thank you very much, Senator, for being so involved.

Thank you all, panelists, very much.

The House will send over a bill, I would think, by the end of the month, and this committee, too, will vote out legislation shortly. It is clearly a major question. It is a major problem that a number of people are unemployed in America today, and we are going to act to try to address it in the best way we possibly can.

Thank you all very much. The hearing is adjourned.

[Whereupon, at 11:30 a.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Unemployment Insurance

The author Robert Fulghum said:

"A job title doesn't . . . come close to answering the question: 'What do you do?'"

Often, "What do you do?" is among the first things that folks will ask. Often, it's a question about much more than just how we spend our time.

These days, more and more Americans answer the question "What do you do?" by talking about how they are looking for work.

The unemployment rate is now 9.7 percent. And economists expect it to rise above 10 percent before long.

That unemployment rate means that 14.5 million people have lost their jobs, and are currently looking for work. Five million people have been looking for work for more than six months.

Those numbers tell us something about the economy, in this Great Recession. More importantly, those numbers tell us something about the hardships that real people are facing, every day.

Last week, the Federal Reserve's Beige Book said that the economy continues to stabilize. The economy shows signs of improvement. That's good news.

But the Beige Book also reports that the labor market remains weak. Recent reports show that there are about three million job openings, being chased by about 15 million unemployed people.

Companies are being cautious about adding permanent staff. Instead, they are asking more from their existing staff.

As dire as the situation may be, ours is a resilient economy. The American economy will recover. And the economy will recover one job at a time.

We must continue our work to create jobs. And we must also help our neighbors who are looking for work. That's what we did in the Recovery Act.

The average Unemployment Insurance Benefit is $279 a week. The Recovery Act added an extra $25 a week.

But the average cost of a loaf of bread is $2.79. The average cost of a gallon of milk is $2.72. Diapers for just one baby can cost up to $85 a month. These days, $279 only stretch so far.

We need to keep our unemployed neighbors from falling into poverty. We need to figure out how best to make our safety net work.

And in helping our unemployed neighbors, we also help to keep open the neighborhood grocery store, and the neighborhood gas station. In helping our unemployed neighbors, we also help to keep houses out of foreclosure. And in helping our unemployed neighbors, we also help our economy, and ourselves.

Today we hear from experts and stakeholders about Unemployment Insurance. We hear the views of unemployment beneficiaries, employers, states, and economists.

We hope to get some good ideas about how to help people now, and in the long run. Congress faces major decisions about unemployment insurance. If we continue to make the right choices, more folks will find work again, and sooner.

As Robert Fulghum said, a job title doesn't come close to answering the question: "What do you do?" Our title may be "Senator," but that doesn't come close to telling what we do. A deeper question may be: What do we do to help people? Today, we will spend some time seeing if we can do some of that.

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Unemployment Insurance for the Great Recession

Testimony for the

Committee on Finance

U.S. Senate

Room 215
Dirksen Senate Office Building
10:00 a.m.
September 15, 2009

by

GARY BURTLESS*

* John C. and Nancy D. Whitehead Chair in Economic Studies, The Brookings Institution, 1775 Massachusetts Avenue, N.W., Washington, D.C., 20036. The views expressed are solely my own and should not be ascribed to the staff or trustees of the Brookings Institution.

Unemployment Insurance for the Great Recession

GARY BURTLESS
The Brookings Institution

Summary

Since December 2007 the U.S. unemployment rate has nearly doubled and the number of payroll jobs has fallen by 6.9 million, or 5%. The severity of the current recession makes it very hard for laid off workers to find new jobs. This has clear implications for the design of unemployment programs. For typical American workers the most important protection they receive when laid off is provided by unemployment insurance (UI). The regular UI program provides up to 26 weeks of benefits.

When unemployment is high and job finding is hard, many UI claimants exhaust their regular benefits. In the worst month following the 1981-82 recession, 41% of UI claimants exhausted their regular state UI benefits. In July of this year, nearly 51% of UI claimants exhausted their regular benefits. This is the highest rate of benefit exhaustion on record. It is a painful indicator of the difficulty of finding a job in the current economy. In view of the fact that the unemployment rate is still climbing and the number of payroll jobs is shrinking, the exhaustion rate is likely to continue rising in the coming months.

On both humanitarian and economic grounds it makes sense to provide longer duration benefits to laid-off workers when the unemployment rate is high. Because unemployed workers need more time to find work in weak labor markets, there is a compelling equity argument for offering insurance over longer spells of job search. In addition, the counter-cyclical effectiveness of unemployment compensation is reduced when a large percentage of laid-off workers is dropped from the rolls as a result of benefit exhaustion.

In 2008 and 2009 Congress authorized federally funded extensions of unemployment benefits through Extended Unemployment Compensation (EUC) and modifications in the Extended Benefits (EB) program. These programs provide federal funding for up to 53 weeks of EUC and EB benefits in addition to the 26 weeks funded by states under their regular UI programs. Authorization for EUC and 100%-federally-funded EB benefits will expire for workers who exhaust their regular unemployment benefits after December 31, 2009. The most urgent policy need right now is to extend the authorization for these programs until at least the end of the 2010 fiscal year. I expect the nation's unemployed will find it harder to land a job after December 31, 2009, than was the case when the EUC program was authorized in the summer of 2008. Thus, the arguments for maintaining the EUC program in 2010 are even more powerful than the arguments for establishing the program in the first place. The 2010 unemployment rate is likely to be substantially higher than it was in either 2008 or the winter of 2009. This consideration also implies it would be highly desirable to authorize continued federal funding for the recent expansions in the federal-state EB program. The EUC and modified EB programs should be authorized to provide benefits to new UI exhaustees until at least the end of the current fiscal year. Congress should consider trimming potential benefit durations only when unemployment comes down and laid-off workers find it easier to secure new jobs.

Critics of extended UI benefits claim they have little effect in boosting consumption and have serious adverse incentives in prolonging unemployment. In view of the severity of the current recession, I find little merit in either argument. Extended UI benefits provide crucial help to the Americans who have suffered the most in the recession – the laid-off workers who have been without work for six or more months. The benefit extensions enable these workers to maintain higher consumption than would be possible without the extra benefits.

The current recession and unemployment insurance

Since the peak of the last economic expansion in December 2007 the U.S. unemployment rate has nearly doubled and the number of payroll jobs has fallen by 6.9 million. Over the same period the number of working-age Americans (those between ages 16 and 64) increased 0.8%. In order for the job market to absorb all the new entrants into the job market, employers should have created about 1% more jobs between December 2007 and August 2009. Instead, the number of payroll jobs declined 5%.

The current recession is on track to be the longest and most severe of the post-Depression era. Between the end of the Great Depression and 2007 America's worst recession occurred in 1981-82, when unemployment reached a peak rate of 10.8%. Assessed in terms of the rise in unemployment and the drop in payroll employment, however, the current recession is already longer and more severe than that earlier one. Chart 1 compares the change in the unemployment rate and in payroll employment in the two recessions. The top panel shows the percentage point difference between the unemployment rate at the business cycle peak and in the 11 months before and the 20 months after the business cycle peak. Although the unemployment rate initially rose more slowly in the current recession compared with the 1981-82 recession, by the 13th month of the recession the jump in unemployment was about the same in the two recessions. According to the National Bureau of Economic Research (NBER), the 1981-82 recession lasted 16 months and ended in November 1982. Soon after that month the unemployment rate began to decline. By the 20th month after the July 1981 business cycle peak, unemployment fell to 10.3%, one-half percentage point below the highest unemployment rate attained in the recession. At the comparable point in this recession, August 2009, the unemployment rate was 4.8 percentage points above the rate when the recession began, and it was still rising.

The trends in the unemployment rate are mirrored in the trends in payroll employment (see the lower panel of Chart 1). In the initial phase of the recession, payroll employment fell more slowly in this recession than it did in 1981-82. However, one year after the onset of both recessions the percentage drop in payroll employment was approximately the same. By the 20th month after the onset of the 1981-82 recession, payroll employment was beginning to rise. In this recession, however, payroll employment continued to decline in the 20th month, though the pace of decline was much slower than it had been between October 2008 and April 2009 (months 10 through 16 of the recession).

The severity of the current recession makes it very hard for laid off workers to find new jobs. This has clear implications for the design of temporary unemployment programs. For typical American workers the most important protection they receive when they are laid off is provided by unemployment insurance (UI). Experienced U.S. workers who are dismissed from their jobs can claim unemployment benefits that replace about half of their lost earnings up to a maximum weekly benefit amount. In most states this maximum amount is roughly half the wages earned by an average worker covered by the unemployment insurance system. This means laid off workers who earn above-average wages collect benefits that replace less than half of their lost earnings. Benefits are usually taxed as ordinary income in the income tax system. UI benefits do not last indefinitely. In normal labor markets, benefits are restricted to just 26 weeks. Laid off workers who fail to find work within six months after losing a job will run out of unemployment benefits before they start earning

earning another paycheck. In recent years between 31 percent and 43 percent of workers who claim unemployment benefits exhaust their eligibility for regular UI benefits before finding a job.

Not surprisingly, the percentage of workers exhausting benefits is higher when the nationwide unemployment rate is high. Chart 2 shows the fifty-year trend in the UI exhaustion rate as calculated by the U.S. Department of Labor Department. In the worst month following the 1981-82 recession, nearly 41% of UI claimants exhausted their regular state UI benefits. In July of this year, the Labor Department estimates that nearly 51% of UI claimants exhausted their regular benefits. This is the highest benefit exhaustion rate on record and is a painful indicator of the difficulty of finding a job in the current economy. In view of the fact that the unemployment rate is still rising and the number of payroll jobs is shrinking, it is likely the exhaustion rate will continue to increase in coming months.

Chart 2 shows that benefit exhaustion increases sharply late in recessions and in the early months of economic recoveries. For example, the peak UI exhaustion rate in the 1981-82 recession did not occur until August 1983, nine months after the low point of the recession, which occurred in November 1982. The chart also shows a disturbing long term trend toward higher benefit exhaustion rates, even when the economy is growing. In the 1960s the percentage of claimants who exhausted regular UI ranged between 18 percent and 30 percent of all the workers who filed a successful claim for benefits. Even in the midst of a long economic boom in the late 1990s, the UI exhaustion rate never fell this low. The long-term rise in the UI exhaustion rate mirrors the rise in long-duration unemployment spells. Chart 3 shows BLS estimates of the percentage of unemployed workers who have been jobless for more than 6 months. This percentage typically rises during and immediately after recessions and then declines in later stages of every economic expansion. However, the percentage of the unemployed who suffer 6 or more months of joblessness has been rising in successive recessions and business-cycle expansions, indicating that long-term unemployment has become a progressively worse problem over time.

International comparisons

In spite of the long-term increase in the percentage of workers who suffer lengthy spells of unemployment, long-term unemployment remains relatively low in the U.S. compared with other industrialized countries. One reason might be the comparatively modest level of income protection offered under our UI system. When U.S. workers initially qualify for UI benefits their level of income protection does not fall much below replacement rates offered in other rich industrialized countries (see Chart 4). During the first 6 months after losing a job, the OECD finds that laid-off American workers receive UI benefits that replace about 60% of the after-tax value of their previous earnings. This is not far below the replacement rate offered in most other OECD countries.

The potential duration of U.S. benefits is substantially lower than the average in other industrialized countries, however. Chart 5 shows the maximum duration of unemployment benefits available in 21 OECD countries. The United States and United Kingdom rank at the bottom of the chart, providing just 6 months of regular UI benefits to laid-off workers. The special Extended Unemployment Compensation (EUC) and Extended Benefit (EB) programs make extra benefits available in this recession. Even when these temporary benefits are included, however, the United States only ranks in the middle of the industrialized countries listed in the chart.

When special unemployment programs are not in effect, U.S. workers cannot expect to receive UI benefits for more than 6 months. The result is that income protection against long-term unemployment is very modest in comparison with the protection available in other rich countries. Chart 6 shows estimates by the OECD of earnings replacement rates for workers who are unemployed for 60 months, 10 times the usual duration of UI benefits in the U.S. Among the 21 countries in the chart, only Greece and Italy offer less protection against very long-term joblessness. If laid-off U.S. workers have assets that make them ineligible to receive public assistance benefits, the income protection available to U.S. workers is even more meager than indicated in the chart. Without public assistance, the income protection available to long-term unemployed workers would replace just 6% of their net income before they were laid off. Nearly all of this protection is provided through UI.

The relatively short duration of U.S. unemployment benefits certainly contributes to laid-off workers' incentive to find a job. By the standards of most industrialized countries, typical unemployment spells in the United States are comparatively brief. In the middle of this decade, when most industrialized countries were growing, less than 1% of the U.S. labor force had been unemployed for longer than a year. In about a third of industrialized countries more than 2% of the labor force had been jobless for more than a year. In many, though not all, of those countries one factor contributing to high rates of long-term joblessness was the generosity of income protection against unemployment.

Income protection and economic stimulus in a deep recession

The UI system serves two crucial functions. First, it provides workers with essential income protection when they are temporarily unemployed as a result of a layoff. Second, by helping unemployed workers maintain their consumption during recessions, UI gives the national economy an important stimulus in periods when overall unemployment is high or rising.

On both humanitarian and economic grounds it makes sense to provide longer-duration benefits to laid-off workers when the unemployment rate is high. Because unemployed workers usually need more time to find work in weak job markets, there is a compelling equity argument for offering insurance over longer spells of job search. In addition, the counter-cyclical effectiveness of unemployment compensation is reduced when a large percentage of laid-off workers is dropped from the rolls as a result of benefit exhaustion. For obvious reasons, workers are more likely to exhaust their regular unemployment benefits when the jobless rate is high (Chart 2). If no extensions of unemployment compensation were available, the percentage of unemployed who collect benefits would shrink as the length of a recession extends beyond the maximum eligibility period.

The EB program was designed to automatically extend the potential duration of UI benefits in recessions. When a state's unemployment rate is high, jobless workers are supposed to qualify for unemployment compensation beyond the usual 26 weeks of benefits. The program provides an additional 13 or 20 weeks of compensation payments for workers in states where the unemployment rate is higher than a threshold or "trigger" rate. In an ordinary recession, half the cost is paid out of a federal government unemployment trust fund and half is paid by states where the program triggers on. In the two decades leading up to the current recession, however, the EB program has rarely if ever triggered on in most states, even when the local and national unemployment rates are high. For example, in June 2003 when the U.S. unemployment rate reached a post-recession peak, Extended Benefits were available in only 3 out of 50 states – Alaska, Oregon, and Washington. While the local unemployment rate was exceptionally high in those states, it exceeded 6.7 percent in six other states, including California, Michigan, and Texas. The Michigan EB program triggered on (for five months) beginning in August 2003, but in no other state did Extended Benefits become available during or after the 2001 recession. Before this recession, Extended Benefits were last available in California in July 1983. California's unemployment rate exceeded 8 percent in 45 of the 266 months after July 1983. In none of those months were California's unemployed eligible for compensation under its EB program. Before the current recession, the EB program had failed to "trigger on" in 33 states during any month after the 1981-83 recession.

The major shortcomings of the EB program mean that Congress must pass special unemployment measures whenever the job market begins to weaken. In every recession since the late 1950s the Congress has enacted a federally funded extension of unemployment benefits in addition to whatever extension might be available under the EB program. The extension in 1975-1977 was particularly generous, providing unemployment claimants who exhausted both regular and extended benefits with up to 26 additional weeks of compensation (for a total benefit duration that could last up to 65 weeks). The special benefit extensions in 1982-1985, 1991-1994, and 2002-2004 were less generous but still provided extra federally-financed benefits that could extend a worker's total eligibility period by up to six months. Special programs to extend the duration of unemployment benefits were in effect during all or parts of 14 out of the 31 years after 1975. Depending on a worker's state of residence and the details of the federal supplemental program in effect, a worker might qualify for 6 to 39 weeks of additional unemployment compensation beyond the 26 weeks available under the regular state insurance program.

In measures passed in June 2008 and February 2009 Congress once again enacted legislation to provide the UI extensions that should automatically have been provided by the EB program. It established the temporary EUC program in July 2008. Depending on the state-level unemployment rate, a laid-off worker who exhausts the standard 26 weeks of regular benefits can collect EUC benefits for either 20 or 33 extra weeks, giving workers an entitlement of both regular and EUC benefits that may range between 46 and 59 weeks. By the middle of September 2009, 33 weeks of EUC benefits were available in 44 of the 50 states, and 20 weeks of EUC benefits were available in the other 6 states. The full cost of EUC benefits is paid by the federal government. Under current law, Congress has authorized EUC benefit payments through the first five months of 2010, although no unemployed workers can commence receiving a new "tier" of benefits after the end of this year. Workers can only complete the tier of benefits that has commenced before the start of next year.

In addition to creating the temporary EUC program Congress also offered generous incentives for state governments to change the "trigger" rules for the state-federal EB program. Under previous law, one-half the cost of EB was financed by states. Under temporary rules included in the February 2009 stimulus package, Congress authorized the federal government to pay for 100 percent of the cost for EB benefits paid in 2009 and the first few months of 2010. (Under some states' rules, no unemployed workers can commence receiving a new "tier" of EB benefits after the federal government stops paying for 100% of the benefit costs. In those states, workers can only complete the tier of EB benefits that has commenced before the start of next year.) Because states do not have to pay for any of the benefit costs, they have an incentive to adopt a lower unemployment rate threshold for triggering Extended Benefits. States that follow this strategy can make an additional 13 to 20 weeks of unemployment compensation benefits available to laid-off workers at no extra cost to employers in the state. Many states have acted to take advantage of this temporary federal incentive. In the middle of September 2009, 20 weeks of EB benefits were available in 28 of the 50 states, and 13 weeks of EB benefits were available in 10 other states. In 12 states, EB benefits were not available. In most though not all of those states, the local unemployment rate is below the national average rate.

The combination of EUC and EB benefits has extended the potential duration of UI benefits to an all-time high – 79 weeks. In states with lower unemployment rates and in which legislatures did not amend their EB rules to take advantage of generous federal funding, the potential benefit duration is substantially shorter than 79 weeks. The following table shows the distribution of potential benefit duration across the 50 states. (I assume that workers are eligible for a maximum of 26 weeks under regular state UI programs, though a couple of states allow slightly longer benefit durations for some workers.)

Potential UI Benefit Duration (Effective September 13, 2009)

Maximum UI weeks available	79	72	59	46
Number of states	28	10	6	6

In all but 6 states, laid off workers are eligible for at least 13½ months of benefits. In 28 states, including 9 of the 10 with the largest populations, benefits are available for a little more than 18 months.

The availability of longer duration UI benefits has reduced the hardship faced by laid-off workers. It has also helped sustain their consumption when family finances are under severe strain. When the economy is growing strongly and recessions are only a distant memory, unemployment benefits represent only about 0.3% of personal disposable income. When wages and other sources of private income plummet as the result of a recession, unemployment benefits become much more important. In serious recessions, unemployment benefits may represent more than 1% of disposable income. The goal of the program of course is to partially replace wages lost as a result of layoffs. Chart 7 shows the cyclical surge and shrinkage of UI benefit payments measured as a percentage of the wages paid in the same month. Part of the cyclical movement occurs because total wage payments shrink in recessions, but most is the result of soaring UI benefit rolls when layoffs rise.

In the worst recessions, part of the increase in UI spending is the result of a policy choice by Congress and the President. By temporarily extending the potential duration of UI payments above 26 weeks policymakers reduce the fraction of laid-off workers who run out of UI benefits and increase the percentage of the unemployed population that has enough income to pay its bills.

Is it plausible that 100% of UI benefits are immediately spent to support consumption? Probably not. Some of the unemployed have savings, and others have sources of income besides their wage earnings. Many have access to credit with which to pay some of their bills. Some of these workers would be able to maintain all of their pre-layoff consumption, even if they did not collect an unemployment check. Nonetheless, UI recipients are typically drawn from the lower ranks of the income distribution, and so they have less savings and access to credit than average. Many are severely credit constrained, and the spending constraints they face grow more restrictive the longer their unemployment lasts. Nearly all of the benefit expansions that Congress makes available during recessions take the form of extensions in the duration of UI benefits. Thus, benefit expansions are focused on the workers who are most likely to have exhausted their savings and used up their access to commercial credit. For these workers benefit extensions substantially increase the ability and willingness to spend on current consumption. Even if UI recipients spend less than 100% of benefits on immediate consumption, they are likely to spend a large percentage of any benefit increase that takes the form of longer benefit entitlement. Compared with other population groups, the long-term unemployed almost certainly will spend a larger percentage of a benefit hike or tax cut.

Adverse incentive effects

While UI is an essential component of overall income protection, most people recognize that it creates adverse incentives for recipients. Because the UI payment replaces a percentage of the earnings workers lose as a result of unemployment, it reduces the pressure on them to accept another job. This is advantageous both to the worker and the wider economy when it improves a worker's capacity to reject bad jobs offers and find better ones. By improving the quality of matches between unemployed workers and job openings, a basic UI program can improve the average productivity of the workforce. This function of UI is especially important for workers who have extensive skills and experience. Their special expertise would go to waste if they accepted jobs where their skills have little use. UI also creates important incentive problems, however. It allows workers to postpone serious search for a new job, and it encourages some of the unemployed to reject good job offers even when they are unlikely to obtain better ones. In these cases, taxpayers are paying for additional UI payments to subsidize jobless workers who are not productively engaged in finding a new job. When weighing the welfare costs of these adverse effects, however, we should take into account the substantial welfare value of the income protection provided by UI. Air bags and seat belts reduce the adverse consequences of automobile accidents and thereby reduce drivers' incentive to drive safely. We nonetheless believe safety equipment is worthwhile because we are confident its value in protecting life and limb greatly exceeds the extra cost flowing from small increases in reckless driving.

There are some partial solutions to UI's incentive problems, and the U.S. unemployment system uses most of them. We can limit UI benefits to a carefully restricted population. We can offer insurance payments that replace substantially less than 100% of worker's lost earnings. We can restrict benefits to a limited period of time after layoffs. We can require workers to show evidence of purposeful job search. All industrial countries, including the United States, use one or more of these strategies to reduce the adverse incentives created by UI. Whether the balance of these program features in the U.S. system produces an optimal tradeoff between good income protection and sound incentives is an open question. Clearly, the United States has struck a different balance between income protection and job-finding incentives compared with the balance preferred in most other rich countries. By providing smaller and shorter-lasting benefits, our system encourages unemployed workers to find jobs quickly. Even though long-duration unemployment has become more common in the United States, it is still much less prevalent than it is in many countries that offer more generous income protection to the unemployed.

By providing longer duration benefits in a recession, benefit expansions like the EUC and EB programs can worsen the adverse incentives that are already built into unemployment insurance. How big a concern should this be? Given the current trend in unemployment and job creation, I do not think it is a major concern. Of the 14.9 million Americans who said they were unemployed and looking for work in August 2009, only about 60% were collecting any kind of unemployment insurance benefit. This means that 40% of job seekers were not affected by any of the adverse search incentives created by UI. Indeed, if the UI system was creating adverse incentives for the 60% of the unemployed who were collecting benefits, the 40% who did not collect benefits almost certainly found it easier to land a job. They faced less intense competition in finding a new job than would have been the case if fewer job seekers had been collecting a UI check.

When unemployment is extremely high and the number of job seekers greatly exceeds the number of job openings I am not terribly concerned about the adverse incentives created by extensions in unemployment benefits. The significance of the adverse effects is small in comparison with the importance of maintaining or increasing consumer spending. There are few population groups in the country who are likely to spend as much out of $1,000 in extra government transfers as workers who have been unemployed for 6 months or longer.

Policy recommendations

Authorization for EUC and 100%-federally-funded EB benefits will expire for workers who exhaust their regular unemployment benefits after December 31, 2009. In view of this fact, the most urgent policy need is to extend the authorization for these programs until a later date. I expect that the unemployed will find it harder to land a job after December 31 than it was when the EUC program was authorized in the summer of 2008. The arguments for establishing the EUC program in 2008 and for extending the program in 2009 will be even more compelling next winter. The unemployment rate is likely to be substantially higher than it was in either 2008 or the winter of 2009. The same considerations suggest that it would be worthwhile to authorize continued federal funding for the recent expansions of the EB program. In my view, the EUC and modified EB programs should be authorized to provide benefits to new UI exhaustees until the end of the current fiscal year, September 30, 2010. Congress should consider trimming potential benefit durations only when the unemployed begin to find it easier to obtain new jobs. I am not a macroeconomic forecaster, so I cannot offer a prediction of when that will occur.

Some advocates for the unemployed propose that the current extensions of UI protection should be expanded still further. In states with exceptionally high unemployment, Congress might authorize a third tier of EUC benefits to provide an additional 13 weeks of protection. Before taking this step, Congress should carefully consider two painful tradeoffs. First is the provision of subsidies so that unemployed workers can continue to pay for the employer-provided health insurance they received before their layoffs. Second is the provision of extended UI protection to workers who lose their jobs late in the recession or in the early months of the hoped-for recovery.

In this recession unlike earlier recessions Congress authorized the provision of generous federal subsidies to help unemployed workers pay for health insurance premiums. The subsidy, which is limited to 9 months per worker, covers 65 percent of the cost to laid-off workers of continuing their coverage under their former employer's health insurance plan. Most working Americans receive health insurance through their employer or the employer of another wage earner in the family. Employers typically pay for most of the premium costs of this insurance. When workers are laid off they lose the employer subsidy. The total, unsubsidized cost of health insurance is typically unaffordable for a jobless worker, around $4,700 a year for single workers and $12,700 for workers with a spouse and child dependents.[1] These amounts are 10 percent and 32 percent, respectively, of the average year-round wage of American workers. Because relatively few workers can afford to pay the full cost of these premiums after they are laid off, many laid-off workers lose their health insurance until they find another job where health insurance is offered as a fringe benefit.

For non-elderly, non-disabled Americans with incomes above a low-income threshold, inexpensive group health insurance is available only to employees who work for employers that provide health insurance and to the dependents of those employees. Some companies do not provide health insurance to their employees, so their employees do not lose health benefits when they lose their jobs. But for the workers who are provided health insurance through their jobs, the loss of employment typically causes a much bigger loss than the loss of wage income. It also causes the worker and his or her dependents to lose access to affordable health protection. By providing generous subsidies so these workers can continue their health insurance after they are laid off, Congress dramatically expanded the protection available to laid-off workers who lost good jobs. In my view, it would be more valuable to extend this protection than it would be to provide an additional 13 weeks of UI to workers who may already have collected benefits for 79 weeks. Even though I am sure many unemployed workers have declined the federal government's 65% insurance subsidy and chosen to give up their health coverage after being laid off, I am equally certain the subsidy is vital lifeline for some unemployed workers who face high medical bills. Either the worker or a dependent of the worker has a costly medical condition that makes good health insurance a necessity. For these workers, access to basic health insurance may be much more important than eligibility for a few extra weeks of unemployment benefits.

Members of Congress should also keep in mind a second trade-off. At some future date the temporary extensions in UI will be allowed to expire. When that occurs, workers who have begun to collect a "tier" of extended unemployment benefits will probably be allowed to complete that tier, but neither they nor other workers will be permitted to begin collecting any additional tier of benefits. For example, workers who have begun to collect regular state UI benefits will not be permitted to collect EUC or 100%-federally-funded EB benefits. Those workers will only be able to collect to the standard 26 weeks of regular UI benefits. Before extending current emergency UI programs beyond 79 weeks, we should carefully consider how much funding will be needed to treat unemployed workers equitably today and over the future course of the recession and recovery. A rough rule of thumb is that we should attempt to offer broadly similar levels of earnings insurance through UI in good and bad labor markets. That is, if a new layoff is likely to cause a worker to lose $10,000 in wages in a strong job market but $20,000 in a weak job market, we should adjust the duration of unemployment benefits so that a similar percentage of lost earnings is replaced in the two cases. (Newly laid off workers should expect larger earnings losses when jobs are hard to find, and unemployment lasts longer, than when jobs are easy to find.) Based on our experience in recent

[1] Wayne Vroman (2009), "Unemployment Insurance in the American Recovery and Reinvestment Act (HR1)," Washington, D.C.: Urban Institute. http://www.urban.org/publications/411851.html

business cycles, the U.S. job market is likely to remain weak for a considerable period. It will be hard for workers to find jobs for many months and probably for a number of years. Unless we are fairly confident we have the resources and will to offer extended UI protection for several years, it may be inequitable to provide very long-duration benefits to laid off workers who happen to be unemployed today.

As noted earlier, the most urgent item with respect to UI is an extension beyond December 31, 2009, of authorization for a simple extension of EUC and 100%-federally-funded EB benefits. Without such an extension, many workers who have been laid off in the past few months will not be eligible to receive UI after they exhaust their regular UI benefits. They will experience unnecessary hardship, and many of them will cut their consumption spending, generating new problems for the economy. I think our experience in this recession points to a number of areas in which long-term reform of UI is needed. I will mention just three.

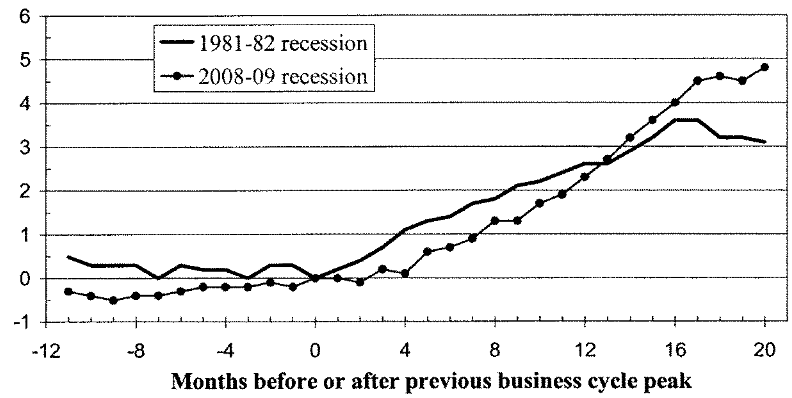
First, many states entered the recession with UI trust fund reserves that were plainly inadequate, notwithstanding the fact that the job market had been comparatively healthy for a number of years. By providing state trust funds with interest-free loans during the current recession, the federal government has unintentionally rewarded states for this short-sighted behavior. Sensible federal policy should encourage state legislatures to build up prudent trust fund reserves during economic expansions.

Second, the long-term trend toward longer unemployment spells and higher UI exhaustion rates signals a shift in the nature and severity of joblessness among some of the nation's unemployed. We should improve the job-finding and training services in the current system to deal with the problem. In addition, we should consider restructuring the income protection provided under UI.

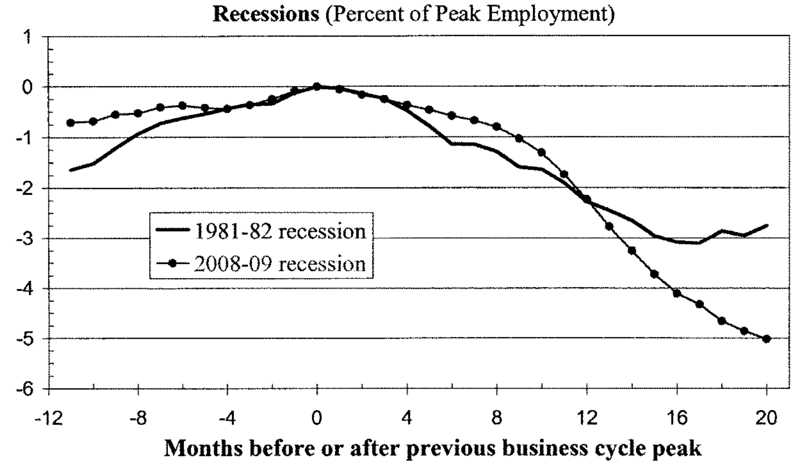
Finally, the basic system of financing UI is scandalously out of date. The federal unemployment tax is only assessed on the first $7,000 of a worker's annual wages. This is equivalent to the annual earnings of a part-time, minimum-wage worker. In more than half of the states the tax base is less than $10,000. For the country as a whole, unemployment insurance taxes are assessed on only about a quarter of wages. This system means that the maximum UI tax is assessed on the earnings of low-wage workers. In many states the unemployment tax is essentially a flat tax per person added to a company's payroll. It is hard to see why this tax structure is in the best interest of employers, of low- and average-wage workers, or of the nation as a whole. Congress should consider a basic overhaul of the financing system.

Chart 1. Trends in Unemployment and Payroll Employment in Two Post-War Recessions

Change in Unemployment Rate in 1981-82 and 2008-09 Recessions (Percentage Points)

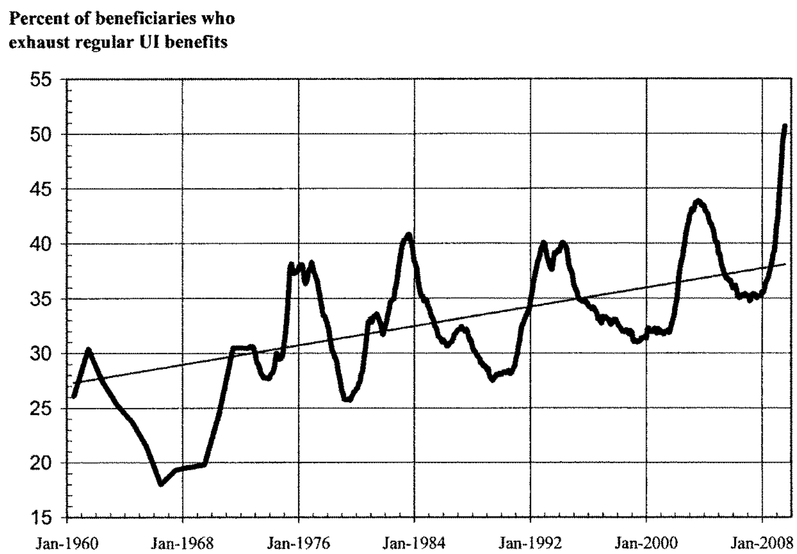


Change in Payroll Employment in 1981-82 and 2008-09 Recessions (Percent of Peak Employment)



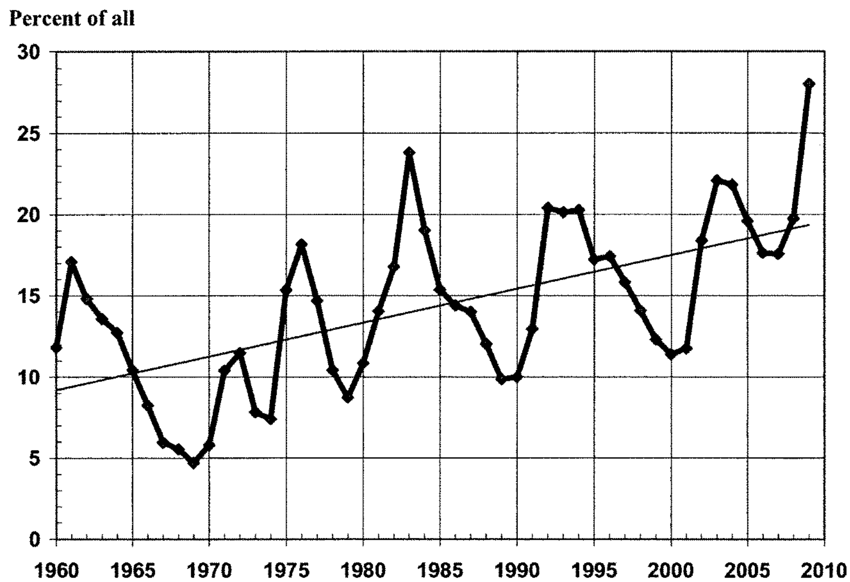
Source: Author's tabulations based on unemployment and payroll employment estimates from U.S. BLS, downloaded Sept. 10, 2009. Dating of recessions is that of the National Bureau of Economic Research.

Chart 2. Unemployment Insurance Benefit Exhaustion Rate, 1960 - July 2006



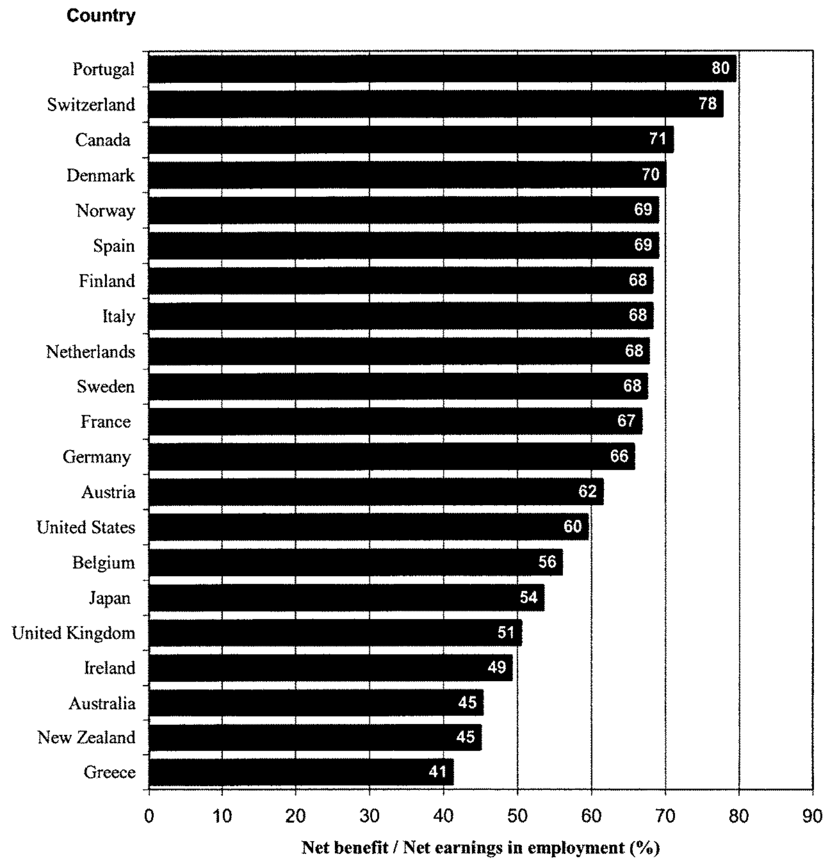
Source: Author's tabulations of UI benefit exhaustion data from Department of Labor, Employment and Training Administration (downloaded Sep 11, 2009). Data are annual averages before 1972 and monthly thereafter.

Chart 3. Percent of the Unemployed Who Have Been Jobless for 27 or More Weeks, 1960 - August 2009



Source: Author's tabulations of U.S. BLS data (downloaded Sept, 12, 2009).

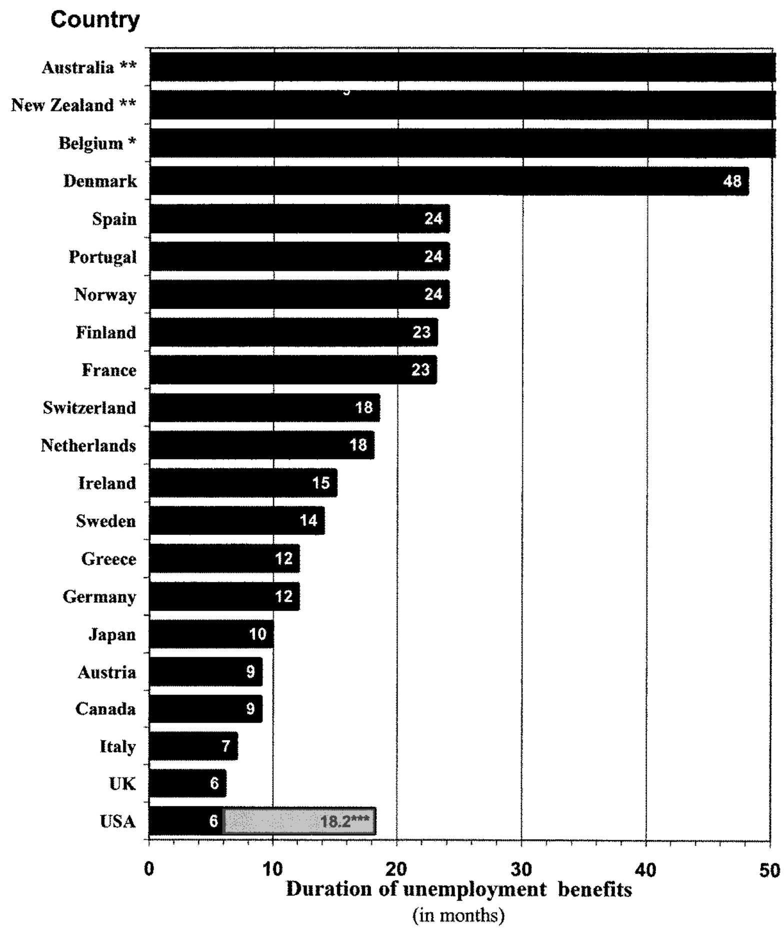
Chart 4. Net Income Replacement in the Initial Period after Job Loss in 21 OECD Countries, 2005*



* Average replacement rate of workers earning the national average wage in four types of family situations: single and married, with and without children.

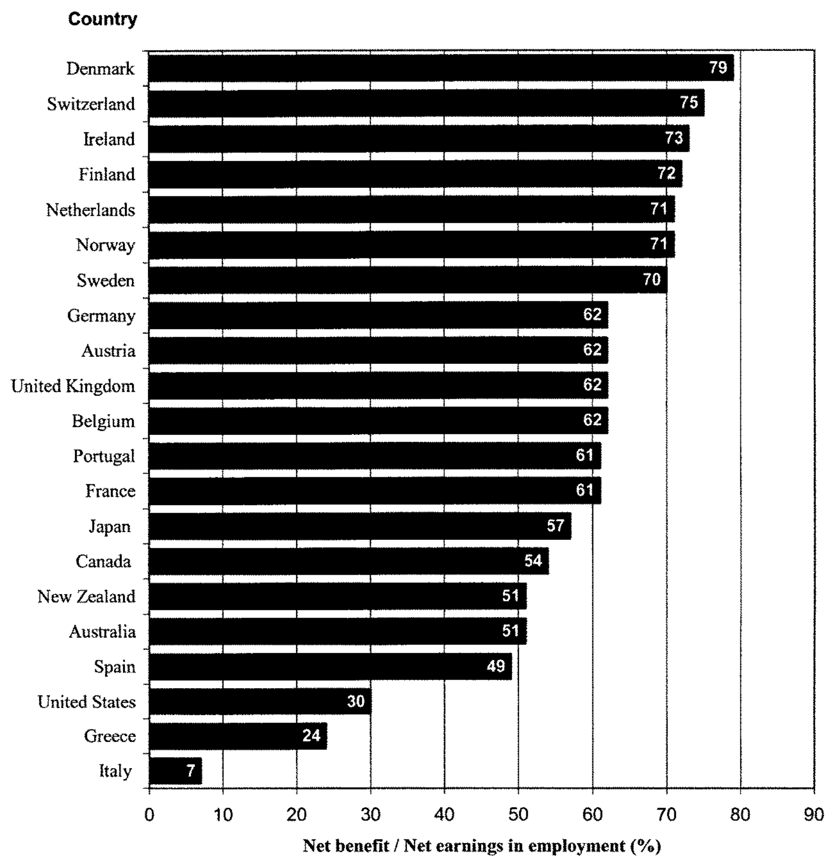
Source: OECD, *Benefits and Wages 2007: OECD Indicators* (Paris: OECD, 2007).

Chart 5. Maximum Duration of Unemployment Insurance Benefits in 21 OECD Countries, 2005



* Belgium essentially provides unemployment benefits of indefinite duration.
** Australia and New Zealand offer only means-tested benefits. If the eligibility test continues to be met, unemployment benefits can last indefinitely.
*** Including maximum additional UI weeks temporarily made available in 2009 under the EUC and EB programs.
Source: OECD, *Benefits and Wages 2007: OECD Indicators* (Paris: OECD, 2007).

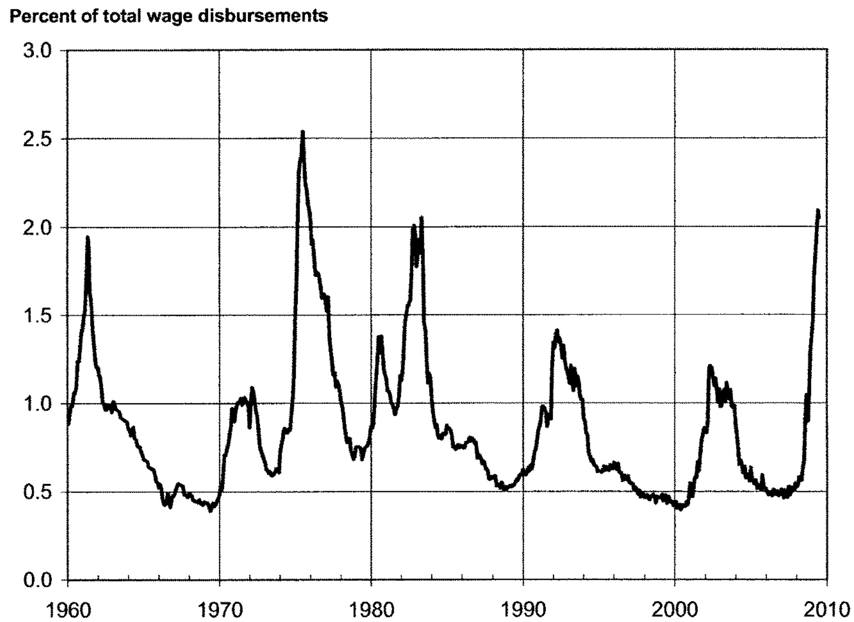
Chart 6. Net Income Replacement in the First Five Years after Job Loss in 21 OECD Countries, 2005*



* Average replacement rate of workers earning the national average wage in four types of family situations: single and married, with and without children.

Source: OECD, *Benefits and Wages 2007: OECD Indicators* (Paris: OECD, 2007).

Chart 7. Government Unemployment Insurance Benefit Payments, January 1960 through July 2009



Source: Author's tabulations of National Income and Product Accounts data, Table 2.6.

Senate Finance Committee Hearing
Unemployment Insurance Benefits: Where Do We Go from Here?
Responses to Questions for Mr. Burtless

Questions From Senator Menendez

Question: To what extent would you say has the ARRA's package of benefits for unemployed workers, including the extensions, the $25 increase, the 65% COBRA subsidy, the suspension of the federal tax on unemployment benefits, help the economy up to this point?

Response: I do not know the precise amount of unemployment insurance benefits that have been paid out as a result of the ARRA stimulus package. According to the Department of Commerce's Bureau of Economic Analysis, government unemployment benefit payments have increased dramatically since Congress authorized the Extended Unemployment Compensation (EUC) program in June 2008. Before EUC benefits began to be paid in the summer of 2008, spending on unemployment insurance benefits amounted to about $3.5 billion per month (seasonally adjusted). In August 2009 monthly spending was $11.4 billion, an increase of about 230 percent. Of course, much of the increase would have occurred even without the unemployment provisions in the ARRA, because the number of unemployed rose steeply.

Suppose one-half of the monthly increase in benefit payments, or about $4 billion, were due to the benefit extensions and improvements authorized in the ARRA. How much has that spending helped the American economy? Nearly all of the extra outlays on unemployment compensation went to families who are credit constrained to some degree. Workers entering unemployment often come from the lower paid ranks of the workforce. Those who have been unemployed 6 months or longer and who qualify for EUC or Extended Benefits have frequently depleted their family's liquid savings and may have very little ability to borrow. Under these circumstances, the extra unemployment benefits made possible by ARRA are likely to be spent very quickly by recipients and to be used to pay for basic necessities—groceries, fuel, utility bills, school supplies, transportation, and pharmacy and medical bills. The dollars paid out as EUC and EB benefits will be quickly recycled though the economy, providing revenue and profit for local businesses and wages for local employees. Mark Zandi, chief economist of Moody's Economy.com, estimates that the multiplier for government spending on extended unemployment benefits is about 1.64. That is, Zandi estimates that an additional $1 in spending on unemployment benefits boosts U.S. GDP by $1.64 within one year of the time the extra dollar is distributed to an unemployed worker. According to this calculation, $4 billion in extra unemployment compensation expenditures every month can lift the Nation's GDP by a little less than $80 billion a year, or approximately 0.6 percent of the latest CBO estimate of 2009 national output.

Question: What would be the negative economic impact if we did not extend the ARRA benefits for the unemployed into 2010?

Response: There would be two adverse effects. First, the 2010 economy would not receive the stimulus provided by continuation of spending on ARRA unemployment compensation (see my response to the previous question). Second, workers who exhaust their regular unemployment compensation—now more than 50 percent of all workers who receive first-time benefits—would be deprived of a critical source of income. For many UI claimants, unemployment compensation is the principal source of funds for financing everyday consumption. In strong labor markets, the overwhelming majority of claimants can find a job and get reemployed before they exhaust 26 weeks of regular UI benefits. In the current job market, however, fewer than half of newly unemployed workers are leaving the UI rolls and finding jobs before exhausting their benefits. It would be a serious humanitarian problem if a majority of UI claimants loses access to this crucial income protection when the prospects for job finding are so bleak.

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CONGRESSIONAL TESTIMONY

The Economics of Extending Unemployment Benefits

Testimony before
The Finance Committee
United States Senate

September 15, 2009

Karen A. Campbell, Ph.D.
Policy Analyst in Macroeconomics
The Heritage Foundation

My name is Karen Campbell. I am a Policy Analyst in Macroeconomics at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

I want to thank the members of the Finance Committee for this opportunity to address you concerning Unemployment Insurance and where we go from here. Today I will discuss the overall economic consequences of extending unemployment insurance particularly in light of current economic conditions.

Sources of Unemployment

As you know, economists have identified three sources of unemployment. Two of the sources are normal and necessary for a vibrant and dynamic economy. That is unemployment due to frictions where individuals are free to move from job to job in order to find the best employment and unemployment due to structural changes where new technology or new needs and wants requires a different set of skills or a different location for the individual.

The third type, cyclical unemployment, is typically what policymakers try to minimize. This occurs due to downturns in the business cycle. However, while an unemployment stint may be initially due to a cyclical downturn, as the recession plays out, the business landscape is altered. Businesses that did not survive the downturn either must re-emerge with different cost structures, which usually involves different technology and processes or must permanently close its doors. Further, recessions may change the needs and constraints that individuals and businesses face. This means investments in new businesses and employment skills may be needed to meet the changed needs of the marketplace.

Thus cyclical unemployment can quickly become structural unemployment. While unemployment insurance provides a safety net for individuals who find themselves between jobs, longer term unemployment spells point towards a structural unemployment problem for which unemployment insurance is too blunt a policy tool and is counterproductive.

Trade-offs and Incentives

Counter productivity sets in when the incentives of an insurance policy become unbalanced. Insurance policies alter the incentives individuals face and have the well known perverse effect of nudging the very behavior that would lead to a pay-out of the insurance policy. That is, the problem of moral hazard. Economists have found unemployment insurance affects an individual's incentive to find a job by changing the constraints and opportunity cost of finding a job.

Unemployment benefits reduce the incentive and the pressure to find a new job by making it less costly to remain without work. Consequently workers with UI benefits look for new jobs less rigorously than do workers without them. The typical unemployed worker spends about 32 minutes a day looking for a new job.[1] Workers eligible for UI benefits spend about 20 minutes a day looking for work during their 15th week of unemployment. They look much harder when their benefits are about to end, spending more than 70 minutes a day job hunting in the 26th week of unemployment.[2] Since workers with unemployment benefits search less rigorously for work until their benefits are about to expire, it typically takes them longer to find new jobs. Labor economists estimate that extending the potential duration of unemployment benefits by 13 weeks increases the average amount of time workers on UI remain unemployed by two weeks.[3]

This has economic consequences. Workers do not create economic wealth during the additional weeks they remain unemployed. They save and consume less because UI replaces only a portion of their wages. Labor markets become less flexible because it takes more time for workers to transition from one industry or state to another. This hinders overall economic growth.

Balancing the Interests of Society

For a risk-averse population, unemployment insurance provides an opportunity for individuals to smooth their spending in the event of a loss of income. Depending on the

[1] Alan B. Krueger and Andreas Mueller, "Job Search and Unemployment Insurance: New Evidence from Time Use Data," IZA Discussion Paper No. 3667, August 2008, p. 11, at http://ssrn.com/abstract=1261452 (November 13, 2008).

[2] Ibid., pp. 20-21. Note that this study occurred when extended benefits were not in effect, so benefits expire after the 26th week.

[3] Lawrence Katz and Bruce Meyer, "The Impact of the Potential Duration of Unemployment Benefits on the Duration of Unemployment," Jour-nal of Public Economics, Vol. 41, No. 1 (1990), pp. 45-72. Note that an elasticity of 0.16 implies that increasing the duration of unemployment insurance by 13 weeks results in a roughly two-week longer (13 * 0.16 = 2.08) unemployment spell. Also note that this is the same estimate used by the Congressional Budget Office in its 2008 survey of stimulus options.

level of the pay-out benefit, the unemployed individual may not be forced to make less optimal consumption choices. This, in turn, allows the ripple effects of income losses to be minimized. For this benefit, individuals through their employer's contribution, pay a premium during the times the individual is employed. The unemployment insurance policy, in addition to defining a benefit level, defines the maximum length of time the benefit will be paid.

Designing policies that best balance the incentives of all members of society is an extremely challenging task. Many labor economists have studied the optimal UI policy both in terms of duration and level of benefit that best balance the overall interests of society in theory.

As with any model used to investigate a problem, many details of the overall economy are abstracted from in order to focus on one particular aspect of the issue. In designing good policy, though, many aspects of the problem must be considered and weighed. In the case of S. 1647, the policy proposes to extend the duration of emergency UI benefits into 2011. This is not a true insurance policy in that the funds are not paid with current premiums. Rather this is an additional government spending proposal that must be financed by borrowing. Whenever debt is used to finance a proposal, a relevant metric is whether the proposal earns greater income on the borrowed funds than it must pay in interest on the debt.

Empirically, at the national level, an imperfect, but useful proxy for how well a policy balances the interests of all its citizens is whether the overall standard of living, measured by GDP, would ultimately increase or decrease. The payment of our national debt also comes out of our Gross Domestic Product. Thus a way to analyze whether borrowed funds earn a positive return is whether the use of the borrowed money will increase the productivity of the U.S. economy such that our GDP will increase by more than the principle and interest on the borrowed funds.

My colleague James Sherk and I dynamically estimated the effect of borrowing money to pay additional weeks of unemployment insurance. The dynamic model takes account of the interactions between the positive effects on income and spending smoothing, the borrowing effects of interest rates and investment levels and the productivity effects in terms less labor time. We found the net overall effect to be negative. That is, for every

$1 the government borrowed, GDP increased by only at most $0.25.[4] As this negative seventy-five percent return is siphoned out of the economy, over time these losses are felt in less new investments taking place, which leads to less new capacity and less opportunity for workers in the future.

State of Current Economy

Lastly, there are a number of current economic conditions that are relevant for evaluating whether enacting S. 1647 will contribute to greater economic growth and stability or, in fact, make it more difficult for individuals to find work in the future.

First, the Federal Reserve, as well as a number of other independent economic forecasts, are seeing stabilization and a slowly recovering economy beginning in the third quarter of 2009.[5] The sustainability of the recovery will depend on the ability of individuals and businesses to invest in both human and physical capital to meet the needs of the changed landscape of the economy. As the government borrows more and more from savers, the ability of private individuals to make the investments they need to make may be hindered.

Second, the CBO is projecting that the U.S. debt is on a course to reach $9.1 trillion dollars in the next ten years.[6] Furthermore, the growth in the U.S. debt is outpacing the growth rate of U.S. GDP. If this trend continues, the U.S. debt will eventually be larger than the U.S. economy. As more and more of our national income is used to finance debt, we will have less income to invest in wealth building assets. This deterioration of the U.S. economy's balance sheet is already worrying countries, such as China, that hold U.S. debt.

Third, although the business cycle is seen to be turning upward, there are many political contingencies that are interacting with business investment decisions. The policy to extend unemployment insurance benefits cannot be viewed in a vacuum. Its overall effect will depend on whether and what direction other fundamental reforms will take.

[4] James Sherk and Karen A. Campbell. "Extended Unemployment Insurance--No Economic Stimulus." *The Heritage Foundation*, Center for Data Analysis Report #08-13, November 18, 2008 at http://www.heritage.org/Research/Economy/cda08-13.cfm.
[5] Minutes of Federal Open Market Committee, August 11-12, 2009 at http://www.federalreserve.gov/monetarypolicy/fomcminutes20090812.htm (September 13, 2009).
[6] "Mid-Session Review Budget of the U.S. Government: Fiscal Year 2010," Office of Management and Budget, August 25, 2009, at *http://www.whitehouse.gov/omb/assets/fy2010_msr/10msr.pdf* (September 9, 2009)

Some of these reforms are the structure of financial sector oversight, markets for obtaining health insurance and medical care and the needed reforms to Social Security and Medicare programs that will put those on a sustainable path going forward.

The uncertainties regarding what the rules of the marketplace will be going forward can be a contributing factor to delayed decision making and can hinder a recovery.[7] Extending unemployment benefits further adds to the paralysis by increasing the bar of the certain or known level of status quo income against which a decision to take a new employment situation, with an uncertain or unknown outcome, must be weighed.

Fourth, it is well known that unemployment is a lagging indictor and that the unemployment rate can rise even after a recovery has started. Yet it should also be noted that the information economy brought about by the internet is affording many more opportunities for free lance and other forms of self employment that may currently go under the radar. Understanding the way individuals are employed in the 21st century and adapting unemployment insurance, as well as a many other currently debated policies, accordingly will be a key to fostering a sustainable recovery.

Conclusion

The economic recovery will take time and, perhaps more importantly, confidence in the stability of the economy going forward. New investments need to be made and brought online, new businesses must be created to fill the gaps in the market left by businesses that did not survive the recession, new supply channels need to be forged and employer and employee matches must be made in light of the new skills and technology that are now needed. All of these market adaptations must take place within the institutions of government policies. This is why policies must be careful not to hinder the very outcome they are trying to promote.

Using a tool meant as a temporary safety net for workers who find themselves involuntarily unemployed is too blunt a tool to address the needs of individuals who find themselves unemployed for longer durations during the next years of economic recovery. More effective policies will be those that foster economic stability, allow individuals and

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[7] This problem of inertia is studying in the literature on decision making under uncertainty. Recent models that can account for ambiguity are particularly useful for gaining insight into a bias for remaining with the status quo.

businesses to invest in new skills and technology that will better utilize our resources and encourage new job creation.

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Senate Finance Committee Hearing
Unemployment Insurance Benefits: Where Do We Go from Here?
Continuing Testimony of Dr. Karen Campbell,
Policy Analyst in Macroeconomics at The Heritage Foundation,
in response to questions

The views expressed in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation

Questions From Senator Menendez

With all this talk about GDP, unemployment percentages, incentivizing behavior, etc. I worry that economists too often look at public policy through the lens of a cold, faceless, academic exercise rather than seeing the individual lives that are being thrown in turmoil by this economy. When I hear 15 million unemployed I see 15 million human beings who are struggling to provide for themselves and their families. I see 15 million mothers and fathers, where the difference between getting an UI check and not is the difference between barely hanging on and bankruptcy. It's the difference between paying their mortgage and losing their home to foreclosure. It's the difference between sending their children to college and making them search for work out of high school. It's the difference between going for a check-up and having to go to the emergency room when their condition worsens.

Q: Take off your economist hat for a moment and tell me what you would say to these families who want to work, but simply cannot find any.

A: The difficulty of balancing the interests all members of society, both the unemployed and employed, is what makes the policy makers job so challenging. States with lower unemployment realize employees in their state will be subsidizing unemployed workers in higher unemployment states (congressdaily.com, October 5, 2009). This reduces the disposable incomes of their employees and puts downward pressure on economic activity in their state. My own sister, who is struggling to find a full-time job after being laid off months ago, is extremely grateful for the unemployment check she receives. She also knows that it is the tax dollars of others who are providing her with this check. She is aware, too, that when she finds a job her taxes will most likely be higher to cover others and the shortfall today. While she is not an economist, she is intuitively balancing her interests in her unemployed state and employed state and wondering what her best action should be.

Economists study human behavior and incentives. More recent economic models take into account a broader range of economic behavior. One such behavior is a bias towards the known status quo. This inertia can be a powerful force that can keep individuals from taking action that would lead to a better personal outcome. Wouldn't it be better if public funds were used to help people overcome inertia and get to a new source of sustainable income rather than public funds used to keep people at the status quo waiting for a job to come back to them? Isn't it time to look at another system that could provide income while helping people find or create jobs rather than relying on a system never designed to handle long-term structural type unemployment?

Talking with family members and friends about their skills and interests and seeing if they can use those skills to launch their own small business or leverage them into a new job is how I take off my economist hat. In their previous employment they had skills that were valued. No longer employed, their skills are diminishing the longer they go unutilized. Can they re-employ their skills by offering the services in the marketplace and help fill the gaps left by the many shuttered businesses? If not, is there a job available that requires different skills. If money weren't an issue, could they go for that training? Is there a job available in a new location? What would it take to move to a new location if hired for a job there? These are the questions I ask my own family and friends. Then I try to help them overcome the specific hurdles that are keeping them in a state of inertia.

Policies that encourage these personal networks at the local levels either through leveraging local job training and employment services or helping other community non-profit organizations would better target the needs of specific individuals and help them get to a new situation than an impersonal unemployment benefit check. Lower tax rates would also put more disposable income into the hands of working friends and relatives that they could use to help the unemployed people in their networks overcome the struggles they are facing. This again would better target those specific individuals in a personal face to face way.

While concerns about the costs of the ARRA's benefits are important, what about the costs of NOT continuing these critical benefits to the economy, especially to those communities hardest hit by unemployment. Mr. Holmes, even you agreed in your testimony (page 4) that "...ARRA significantly increased the funds available to unemployed individuals since February and have assisted many individuals in making necessary purchases, paying credit card minimum payments, and avoiding greater losses in savings than otherwise would have been the case."

Q: Wouldn't you agree that if we don't provide more weeks of unemployment benefits to those who will exhaust shortly, and that if we don't provide the extensions we already have in place to those who are more recently unemployed, that more people will be likely to default on their mortgages, driving down property values and robbing states of much needed tax revenue?

A: The effect of extending UI will most likely be to forestall a default rather than change the probability of default. Unless the effect of extending UI benefits can be shown to change the probability of sustainable income for households, the effect on the probability of a mortgage default will not likely change. I think it is unlikely, in this economy where the cause of unemployment is structural, that the longer one waits the higher the probability of finding a job. Therefore the relationship of extending UI benefits and the probability of default is neutral at best and perhaps negative if the probability of finding a job decreases over time (for example, this could be the case if job skills tend to diminish over time when unemployed or longer unemployment spells send a unfavorable signal to potential employers).

The rates of re-default on mortgages that have undergone loan modifications and other foreclosure mitigation strategies gives some empirical evidence that policies must have sustainable income as the goal rather than avoiding foreclosures. The former changes the probability of default the latter merely changes the timing of default.

Q: How would a sudden explosion in the number of unemployed who exhausted their benefits impact the cost of TANF, SNAP, and other safety net programs?

A: I have not explicitly looked at the relationship interactions between unemployment benefits and these other safety net programs. The rules and eligibility for each program would be key factors determining the budget effects of unemployment benefit expiration and other safety net programs. For example, if one cannot utilize TANF and SNAP as long as they are collecting UI, then when no longer collecting UI, they could possibly become eligible for these programs. There would be a decrease in UI payments and an increase in these other program payments. The overall net effect would depend on the relative benefit levels of each. On the other hand, if one is eligible for these programs while they are on UI then it is unclear why they are not currently utilizing these programs as well. If they are, then a loss in UI would not impact the cost of these programs. Again, I'm not familiar with the rules and interactions of the safety net programs currently in place and cannot speak specifically to the quantitative effects.

As we've heard, job recovery is always the lagging indicator. Pretty much every other aspect of our economy will recover before the job market does, so unemployment is going to stay high for quite a while even after the recession is officially over.

Q: Would you agree that we're looking at high unemployment thru 2010?

A: If we continue to rely on policies that perpetuate the status quo and continue to pursue policies that increase the uncertainty and costs of doing business in the U.S. then the unemployment rate will continue to be high. I think if individuals have confidence in the recovery and see opportunities for new ways to use their skills and are encouraged to do so then the unemployment rate will begin declining in the first half of 2010. One possible way individuals could be encouraged to start filling gaps in the marketplace with their skills is through increased SBA lending programs. The availability of credit is still very limited, particularly for people with limited credit history or impaired credit.

The economic downturn has caused many individuals and small businesses to have their credit scores impaired as the ripple effects of liquidity constrained buyers delayed payments to suppliers who in turn were forced to delay payments to their creditors.
For example the Wall Street Journal reported, "July 2009 Senior Loan Officer Opinion Survey shows that 36% of banks reported tightening credit standards for small firms in the last three months. Only 2% reported standards easing somewhat. Furthermore, many lenders who historically have been stalwarts in the SBA lending arena remain hesitant to make small business loans" (Emily Maltby, October 2, 2009). Financial analyst Meredith Whitney notes, "Small businesses primarily fund themselves through credit cards and loans from local lenders. In the past two years, credit-card lines have been cut by over $1.25 trillion. According to the most recent Federal Reserve data, small business lending is down 3%, or $113 billion, from fourth-quarter 2008 peak levels—the first contraction since 1993." (StreetInsider.com, Insiders' Blog, October 2, 2009).

Increased financial regulations and future regulation uncertainty make banks even more cautious to lend. Borrowers whose credit scores give them an appearance of being a greater credit risk and regulatory uncertainty, on top of banks own capital constraints, is severely limiting credit to those individuals that could be creating jobs and getting the economy growing again.

The recession has likely turned the corner. More and more economists are agreeing that the problem is no longer unemployment it is employment (Sudeep Reddy. "It Will Be Years Before Lost Jobs Return -- and Many Never Will." WSJ, October 6, 2009). Going forward, policies that encourage job creation and lower the regulatory costs of hiring people are what are needed.

Q: With approximately 1.5 million people expected to exhaust their benefits by the end of this year, how high do you think that number would be if the ARRA extensions were allowed to sunset?

A: Assuming the counterfactual is the number of unemployed individuals no longer eligible for benefits at the end of the year without an ARRA extension (with the ARRA extension it is 1.5 million?) the number would depend on a number of factors. How many of the total unemployed who are no longer eligible without an ARRA extension are (1) near retirement and planning to officially retire at the end of their unemployment benefits (2) have an employment prospect and are waiting that extra week to begin and (3) would choose to leave the labor force and pursue further education or families? (4) The feedback effects between lost benefit income, lost consumption and lost employment (note expiring benefits most likely speeds up the effect that extending benefits merely delays and prolongs).

I do not have a quantitative estimate of the net effect of all these factors. However, regardless of the number if ARRA is allowed to sunset, there is still, apparently, 1.5 million who exhaust their benefit (I have not checked the estimate given in the question but am assuming it is accurate) at the end of 2009. These are 1.5 million potential workers who need the opportunity to put their skills back to work. Unemployment benefits are a stop gap measure, going forward public funds directed towards removing employment barriers will provide a solution to the underlying employment problem rather than a band-aid for unemployment.

Statement of Michael B. Enzi
Senate Committee on Finance
September 15, 2009
Unemployment Insurance Benefits: Where Do We Go From Here?

Good morning and thank you, Mr. Chairman, for holding this hearing. Those who find themselves unemployed in America right now are facing an unfortunate economic climate and I am glad we've gathered today to discuss ways the federal government can help.

Today, the Unemployment Rate stands at 9.7 percent – an astonishing number that we have not seen the likes of since the recession of the early 1980s. My own home state of Wyoming has seen a doubling in the number of initial claims over last year, with particularly high increases from the mining and construction industries.

More people are drawing unemployment for longer periods of time, and in many states unemployment trust funds are running out of money. The federal government has responded to increased unemployment by adding many additional federally funded weeks of benefits and increasing weekly payments across the board by $25. Today, we are here to consider extending those provisions as well as adding another 13 week extension.

Estimates put the cost of the Senate bill at $72 to 74 billion dollars. And this would be on top of the $116 billion already spent on unemployment benefits in fiscal year 2009. If enacted, the total would be $200 billion dollars borrowed on behalf of American taxpayers.

As the adage goes, if you give a man a fish then he is able to eat for a day but instead if you teach him to fish then he can eat for the rest of his life. Our goal is to restore the economy, create new jobs and get unemployed Americans back to work. Unemployed Americans would rather have a job than a benefit check. Every action we take should be targeted at creating a job or connecting people with jobs. It is a shame that the American taxpayers will be asked to fund an additional $74 billion here yet not one dime of this will be on worker training.

My colleagues know that I strongly believe we must do more to improve federal job training programs. For the past several Congresses, one of my major priorities has been reauthorizing and improving the Nation's job training system that was created by the Workforce Investment Act (WIA). This law will help to provide American workers with the skills they need to find adapt to a new economy. Education and the acquisition of job skills represent the surest path to economic opportunity and security in the global job market.

I should also note that reforming Workforce Investment Act will cost only a fraction of what extending and expanding unemployment benefits would cost. The program costs about $4 billion a year, so we could cover about 18 years worth of improved job training and job location assistance with the $74 billion we are debating today.

Over the past few years, this Workforce Investment Act reauthorization legislation has received unanimous support in both the HELP Committee, which has reported it out twice, and the full Senate, which has passed it twice. But election year politics and political positioning prevented this important bill from becoming law. So this bill, which would start an estimated 900,000 people a year on a better career path, has been a casualty of Congress' inability to overcome its worst partisan instincts. We, our workers and businesses cannot afford any further delay.

Also, the unemployment trust funds each state maintains are funded by payroll taxes at the state and federal level. Another suggestion that could be made is to pay for these expanded and extended unemployment benefits by extending this payroll tax. Increasing the tax government levies on an employer for each employee is exactly the wrong way to encourage hiring.

Every member of this committee wants the best for unemployed American workers. It is true that some of us may have different ideas for how to make that possible, but I am confident that by working together we can find common ground.

I look forward to hearing the testimony presented by the panel of witnesses invited here today. Thank you Mr. Chairman.

Testimony of Douglas J. Holmes
President, UWC- Strategic Services on Unemployment & Workers' Compensation

Before the
United States Senate
Committee on Finance

Hearing on Unemployment Insurance Benefits
Where Do We Go From Here?

September 15, 2009

UWC- Strategic Services on Unemployment & Workers' Compensation
910 17th Street, NW, Suite 315, Washington, D.C. 20006
Phone (202) 223-8904 Fax (202) 783-1616 www.UWCstrategy.org

Chairman Baucus, Ranking Member Grassley, and members of the Committee On Finance, thank you for the opportunity to testify this morning on the topic of "Unemployment Insurance Benefits: Where Do We Go From Here".

I am Douglas J. Holmes, President of UWC- Strategic Services on Unemployment & Workers' Compensation (UWC). UWC counts as members a broad range of large and small businesses, trade associations, service companies from the Unemployment Insurance (UI) industry, third party administrators, unemployment tax professionals, and state workforce agencies. The organization traces its roots back to 1933 at the time when unemployment insurance was first being considered for enactment.

The hearing this morning is very aptly named and timely in addressing the question of where we go as we turn the corner on an economic recession which by most accounts is equal to or larger in scope than the deep recessions of the 1970s and early 1980s.

In exploring where we go from here, we should consider a number of factors, including 1) the trend in unemployment initial claims for state unemployment compensation, 2) the trend in employment, 3) the impact of the current American Recovery and Reinvestment Act (ARRA), 4) the cost of further federal extensions, 5) the impact of alternative options on the creation of sustainable jobs, and 6) the administrative and tax burden on the federal/state unemployment tax system and employers.

Unemployment and Employment Trends

The seasonally adjusted initial unemployment claims numbers are trending down. As the Congressional Budget Office indicated in its August update, the number of initial claims peaked nationally in March and continues to trend down. The most recent report from USDOL released on September 10th, shows that the number of initial claims continued to trend down to 550,000, a 26,000 claim reduction from the previous week. This data is the most important leading indicator in projecting where the economy is headed. As fewer individuals become unemployed, the number of weekly claims will follow with declines.

The loss in employment has slowed in recent months with net growth in employment just around the corner and growth in employment in some sectors already being reflected in reported employment. The employment report from the US Bureau of Labor Statistics for August released on September 4th shows net employment growth in August over July in a number of sectors, most notably Education and Health Services, Retail Trade in Motor Vehicles and Parts, Automobile Dealers, Department Stores and General Merchandise Stores, and Government.

Although the total unemployment rate, which is broadly reported by the media, is high at 9.7%, and will likely remain high for a number of months, it is not the best measure of progress in employment recovery as it includes numbers of individuals new to the job market or who were previously discouraged from participation in the

job market. The fact that discouraged workers are now once again actively seeking work is an indication of improving health in the economy even though their inclusion in the unemployment rate calculation may result in temporarily higher total unemployment rates.

Economists agree that we are turning the corner on the recession and the economy is already growing again or about to show growth, with net growth in employment hopefully to follow.

We must also be mindful; however, that measures taken now to add further UI benefit expansion costs and/or tax increases could jeopardize the recovery and result in a double dip recession.

History provides us with a point of comparison of which we should take note --- the 1970s and early 1980s. The US economy suffered a recession from late 1973 to 1975 due to an oil crises and a stock market crash. The recession prompted considerable federal spending that depleted state and federal unemployment trust funds. Before the system could fully recover, this recession was followed with a short recession from January to July 1980 and then a double dip recession from July 1981 to 1982. The result was significantly higher unemployment claims and tax rates and higher long term unemployment rates until 1989.

Where we should go from here is to take no steps that would increase the risk of a double dip recession and focus efforts on creating jobs and reducing the cost of employment to continue the trend line to lower unemployment claims. A number of legislative steps and policies would be helpful in assuring a sustained recovery.

1. **Minimize Federal and State Unemployment Taxes**

Employers decide to create jobs and maintain higher levels of employment based not only on the demand for goods and services but also on the costs associated with employees. Unemployment insurance has been a relatively low payroll cost in recent years, but it will quickly become much more significant in 2010 and the years following.

The UI program is a social insurance program that is funded by employers through dedicated state and federal payroll taxes. The state tax is experience rated, so that state UI taxes go down during periods of low claims volumes, such as we experienced from 2003 to 2007. State unemployment experience rates for 2010 in most states will be based on claims levels during the period from July 1, 2008 through June 30, 2009, one of the twelve month periods with the largest number of claims on record.

Without further federal legislation, state unemployment taxes are likely to double on average in the next two years and to stay at a much higher rate for a decade before solvency returns to state UI trust funds. Employers with relatively low state unemployment taxes will experience even greater percentage increases as a series of state solvency taxes are imposed to address state unemployment trust fund insolvency.

As a point of comparison, the first year after the end of the 1982-83 recession, state UI taxes were twice as high as a percent of operating costs as they are today.

In response to significant extended unemployment compensation payout in the 1970s, the employer financed federal unemployment 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 at the end of 2009.

These tax increases could have been avoided and more jobs created during this period with careful management of unemployment benefit spending levels on the front end and recognition that payroll tax increases negatively impact employment growth.

The FUTA 0.2% "temporary" surtax should be permitted to sunset after this year to reduce the cost of employment and increase the likelihood that new jobs would be created.

2. **Avoid Further Increasing the Federal Debt**

The combination of the increase in state unemployment claims due to the recession and additional spending under the ARRA has caused a jump in spending from $43 billion in FY 2008 to $116 billion in 2009 and a projected $109 billion in 2010 and $79 billion in 2011. These increases do not include additional spending that would be part of further ARRA provision extensions or expansions that have recently been introduced.

It is not clear how the existing federal UI account deficits will be addressed in the years to come. The EUC and FUA accounts ran out of funds before the end of FY 2009 requiring a last minute appropriation and adjustment in the debt ceiling. The accounts are now borrowing from general revenue to cover the burgeoning Title XII loan requests from states as well as the increased stimulus spending for extended benefits. Even without a further extension or expansion of the ARRA provisions, the federal unemployment accounts and many state unemployment benefit accounts will be in deficit positions for years to come.

An additional $70 to $74 billion in spending to extend the ARRA UI benefit provisions and provide more weeks of unemployment compensation for individuals in states with total unemployment rates of 8.5% or higher has been proposed in S 1647. If enacted, this legislation would enable unemployed workers in high unemployment states to be paid up to 92 weeks in combined state and federal unemployment compensation with no intervening employment.

3. Rely on the Regular State Unemployment and Federal Extended Benefit System to Provide a Continuing Safety Net as the ARRA Provisions End

The provisions of the ARRA significantly increased the funds available to unemployed individuals since February and have assisted many individuals in making necessary purchases, paying credit card minimum payments, and avoiding greater losses in savings than otherwise would have been the case. The primary ARRA UI benefit provisions in effect today include

a. An Emergency Unemployment Compensation (EUC) program which provides up to 20 weeks of emergency unemployment compensation to individuals in all states who exhaust state unemployment compensation (typically providing up to 26 weeks of benefits); unemployed individuals in states with insured unemployment rates of 4.0% or more or three month average total unemployment rates of 6.0% or more may receive up to an additional 13 weeks on top of the 20 weeks of EUC to total 33 weeks. As of September 13th, all states and jurisdictions except Iowa, North Dakota, South Dakota, Utah and Wyoming were triggered on for the additional 13 weeks of EUC;
b. A Federal Additional Compensation (FAC) program providing individuals claiming state unemployment compensation or federal emergency or extended compensation, with an additional $25 per week of unemployment compensation; unemployed workers in all states are eligible to receive these payments;
c. A special 100% federal reimbursement provision under which states choosing to adopt the optional regular extended benefit trigger based on the total unemployment rate would receive 100% reimbursement to their state unemployment benefit accounts from the federal extended unemployment compensation account instead of the usual 50% reimbursement. As of September 13th, 40 states were triggered on 13 or 20 weeks of regular federal extended benefits and 37 of these states were triggered on based on the optional trigger. States and jurisdictions not triggered on regular federal extended benefits as of September 13th included Hawaii, Iowa, Louisiana, Maryland, Mississippi, Montana, Nebraska, North Dakota, Oklahoma, South Dakota, Utah, Virgin Islands, and Wyoming.

The ARRA UI benefit provisions have had their intended effect in increasing the number of individuals receiving unemployment compensation, increasing the duration of unemployment compensation, and increasing the amount to be paid in weekly unemployment compensation during the recession. The additional spending has responded to immediate cash needs for individuals, but it has also resulted in the total depletion of the federal unemployment account balances, contributed to the insolvency of many state UI trust funds, and increased the duration of unemployment for many unemployed workers. This level of spending is not sustainable.

The EUC program has not only has dramatically increased the amount of unemployment compensation being paid from federal general revenue, but has had the effect of increasing the duration of unemployment compensation paid from state UI trust funds.

Because individuals gauge their work search activities in part based on their perceived need, the availability of additional weeks of federally funded unemployment compensation results in individuals remaining on unemployment compensation for longer periods of time. A rough rule of thumb used by CBO is that making benefits available to all regular UI recipients for an additional 13 weeks increases their average duration of unemployment by about two weeks and that increasing UI benefit levels by 10 percent increases the average duration of unemployment by about one week. By this measure the addition of 20 or 33 weeks of EUC serves to increase the duration of unemployment by as much as 4 or 5 weeks beyond the number of weeks that the individual would otherwise have been unemployed. Of course it should be noted that these are averages and that individuals in labor markets where employment is not available may not be able to find employment despite considerable work search efforts.

The FAC program, by increasing unemployment compensation by $25 per week, similarly results in increased duration of unemployment compensation. Unemployment compensation weekly benefit amount payments are in the $300 average range in many states. A $25 per week addition is nearly a 10 percent increase, and for claimants with lower wages this additional weekly payment is an even more significant disincentive to searching for work. Seven states and jurisdictions, including Delaware, Hawaii, Nevada, Oklahoma, Puerto Rico, South Carolina, and Louisiana, provide for weekly benefit amounts of less than $25 per week. In such states, the additional $25 per week represents a 100% or more increase in benefits for these low wage or part-time workers.

Prior to the special 100% federal reimbursement, most states had not adopted the optional trigger because it triggered on extended benefits earlier than the state viewed as necessary and/or because the state unemployment trust fund was only reimbursed at the 50% rate for benefits paid under the program. It should be noted also, that the regular federal EB program does not provide for reimbursement to state or local government or Indian tribe accounts. As a result, if there is a further extension of this provision increased costs will be imposed on state and local political subdivisions and Indian Tribes.

The result of the ARRA provision is not only to significantly increase the number of states triggering on regular federal extended benefits of 13 or 20 weeks, but significantly increasing the amounts needed from the Federal Extended Unemployment Compensation account to provide for state reimbursement.

The ARRA programs are scheduled to end in December with some continuing features through May of 2010. That should be sufficient time in which to further evaluate the effect of these provisions without enacting legislation that would result in $70 billion more in entitlement spending through May of 2011 and increasing the federal deficit.

The regular Federal/State unemployment insurance system will continue to be in place after the special ARRA provisions end and will continue to provide a partial wage replacement safety net. Individuals who become unemployed through no fault of their own will typically be paid up to 26 weeks of state unemployment compensation benefits and individuals in states with higher unemployment rates will be eligible for up to 13 or 20 weeks of federal extended benefits.

4. **Distribute the remainder of the $7 billion of "UI Modernization" funding to states as Reed Act distributions without requiring states to enact expanded benefit provisions as conditions of distribution**

Many state UI Trust Funds across the country are in deficit positions or likely to run out of funds to pay benefits in the next year. Each state's share of the $7 billion in "UI Modernization" funds could very easily be transferred into each state unemployment benefit account.

As of September 8th, 19 states had outstanding Title XII loan balances totaling over $14.6 billion yet only 7 of these states had received full UI Modernization incentive payments and only 3 had received one-third of the payments. Clearly, many states have determined that the long term costs of the "UI Modernization" provisions exceed the benefit of small one-time incentive payments. This determination should not preclude them from receiving these funds.

Under the normal Reed Act provisions these funds would immediately improve state UI trust fund solvency and could be used by each state as necessary to properly administer unemployment insurance and employment security functions.

5. **Focus efforts on UI system integrity, job search, reemployment services, and targeted training**

UI System Integrity

During the recession it has been understandably difficult for state UI administrative staff to focus on benefit payment control, fraud and overpayments when the priority has been to assure that the growing number of unemployed workers were able to complete their applications, weekly claims forms and be paid quickly.

During times when significant numbers of claims are processed under strained conditions the likelihood is that the number paid erroneously and the incidence of fraud increases. Even in non-recession years, approximately 10% of unemployed claimants are erroneously paid benefits for a variety of reasons and in most cases the erroneous payments are overpayments. Fraud, which typically ranges from 2% to 3% of payments also increases with the amount of payments being made. A UI program that pays out more than $100 billion is likely to have overpayments of close to $10 billion and increased fraud up to $3 billion in fraudulent payments. In light of this, targeted administrative funding is needed for state UI agencies to procure detection and collection systems and staffing to increase the integrity of the system.

UWC supports the cross-matching of quarterly wage information, and new hire data bases with unemployment claims data to identify overpayments and fraud. Federal legislation requiring a monthly statement of charges to employer accounts would be helpful in indentifying erroneously paid and charged benefits. Investment in detection and recovery has been shown in a number of states to increase recoveries and enable more effective fraud prosecution.

UWC members are currently working with the US Department of Labor and a number of state employment security agencies to develop and implement encrypted web based systems to improve the speed, efficiency and effectiveness in obtaining information needed to determine claims eligibility.

Job Search and Reemployment Services

It has been well established that effective job search reduces the number of weeks that individuals remain on unemployment compensation and serves to more quickly fill the staffing needs of employers. The use of web based job search systems and public/private partnerships has demonstrated that greater efficiency and effectiveness in job search can be a win/win by reducing the duration of unemployment compensation, and returning unemployed workers to the workforce more quickly.

Employer based programs, such as customized training, on the job training, and programs such as Georgia Works that permit individuals to work as employees or trainees in anticipation of long-term employment can also be effective.

Targeted Training

Individuals qualifying for unemployment compensation benefits typically have work experience and training from prior work that enables them to find similar work. However, particularly during a long term recession such as we have experienced, a larger number of individuals become structurally unemployed and may find themselves with skills that are no longer in demand in the labor market.

These individuals may require services well beyond the temporary partial wage replacement provided by the UI program and job search services. These long-term unemployed individuals are best served through private and public programs such as Trade Adjustment Assistance and the Workforce Investment Act that provide a broader array of support services, assessment, testing, skills training, and referral services.

Geographic Relocation

Recessions of the size we have just experienced typically result in significant geographic shifts in the availability of employment as the market adjusts to the emerging areas of growth and employment levels do not return in certain labor markets.

Individuals remaining unemployed for extended periods, certainly those remaining unemployed for 79 weeks, should be encouraged to consider relocating to other geographic locations and relocation assistance can remove barriers to individuals seeking employment.

Individuals who are long-term unemployed should expand their work search to states and regions other than the labor market in which they currently reside. States with the lowest total unemployment rates may actually have labor shortages and employers in these states may be recruiting. The thirteen states with the lowest unemployment rates include Montana, Iowa, North Dakota, Utah, Wyoming, South Dakota, Oklahoma, Nebraska, Virginia, New Mexico Louisiana, Hawaii, and Maryland.

Conclusion

The change in the shape of the economy since February, when the ARRA was passed, calls for a new approach to UI benefits. As we turn the corner on recovery we should move swiftly from efforts to expand the UI system to provide the maximum amount of unemployment benefits to one that creates jobs and assists unemployed workers in finding jobs.

The regular federal/state unemployment system remains in place to provide partial wage replacement compensation of up to 26 weeks under state UI law and up to 13 or 20 weeks of federal extended benefits for individuals in states with high unemployment rates.

We should follow the initial claims and employment trends closely through the balance of the year, avoid adding new federal debt, and reduce federal UI payroll taxes in recognition that state UI taxes will be increasing significantly in the next three years.

State shares of the $7 billion reserved for "UI Modernization" should be distributed to the states as Reed Act distributions without requirements that state UI benefit entitlement be expanded.

Strategic administrative funding to address fraud and integrity of the UI system is needed as well as funding for measures to reduce the duration of unemployment compensation and return unemployed workers to work.

Testimony of Beth Shulman
National Employment Law Project
Before the U.S. Senate, Committee on Finance

September 15, 2009

Chairman Baucus and members of the Committee, thank you for this opportunity to testify on the subject of unemployment in today's struggling economy and the need for federal action to extend jobless benefits to help stimulate the economy and serve the growing number of Americans who are actively looking for work for much longer periods of time.

My name is Beth Shulman, and I am the Chair of the Board of Directors of 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 40-year history of serving families hard hit by unemployment and 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.

1. Introduction

In February, Congress enacted, and the President signed, the American Recovery and Reinvestment Act (ARRA), which went a long way toward improving the safety net for the nation's unemployed families through to the end of the year. Of special significance, the ARRA boosted the state and federal unemployment benefits by $25 per week, while offering the unemployed a 65% subsidy on COBRA health benefits and declaring the first $2,400 of unemployment benefits received in 2009 tax free. In addition, thanks to additional federal funding covering the full costs of Extended Benefits, more than half of the states now qualify for up to 53 weeks of federal jobless benefits.

This bold initiative, tailored to meet the demands of the most severe recession since the Great Depression, has provided a vital lifeline for literally millions of workers now struggling to cover their basic necessities while looking for work in an economy that is producing only one job opening for every six unemployed workers. At NELP, we are hearing from more and more families who, but for the ARRA, would be entirely destitute. Indeed, a report issued this week by the Center on Budget and Policy Priorities estimates that the unemployment insurance extension and additional $25 per week in benefits kept 800,000 people out of poverty.[1]

Ricky Macoy of Quinlan, Texas, is one of these workers whose unemployment benefits are all that is keeping his family afloat. Mr. Macoy, a Navy veteran, is a 51-year old electrician with 30 years experience. He lost his job in Louisiana repairing submarines when his employer pulled the plug on the contract last year half way through the project. Mr. Macoy receives $372 a week in unemployment benefits, which he relies on to support himself and his 11-year old son. He has spent his savings, can't afford to pay for COBRA even with the federal subsidy, and is worried

[1] "Keeping 6 Million Americans Out of Poverty in 2009, Estimates Show." Arloc Sherman, Center on Budget and Policy Priorities, September 9, 2009, http://www.cbpp.org/cms/index.cfm?fa=view&id=2910.

that he and his son will now get evicted from their home when his benefits run out in two weeks. He has looked and looked for work, but there's just nothing to be found.

Mr. Macoy is not alone. He's one of about 400,000 workers who, unless Congress acts promptly, will lose federal jobless benefits by the end of this month, and one of 1.4 million workers who will do so by the end of the year. Despite promising signs of economic recovery on some fronts, the crisis of job loss and joblessness is severe and continuing. Employers are still shedding tens of thousands of jobs each week, and unemployment is likely to exceed 10% by the end of this year and remain high through at least 2010.[2] Given the devastating impact of the loss of benefits on families and the corresponding negative consequences for their struggling communities, we urge Congress to immediately pass legislation providing additional weeks of federally-funded jobless benefits and other necessary measures that will strengthen and sustain the support for jobless workers and stimulus to the economy the ARRA has delivered. Now is not the moment to pull the plug on America's jobless workers or to deal a body blow to the nation's nascent economic recovery.

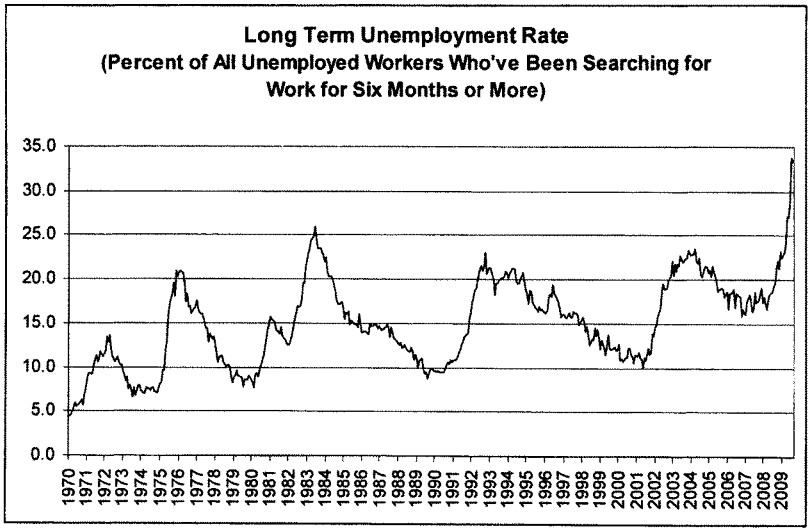
As described below, NELP urges Congress to pass the following reforms to expand and extend the ARRA's unemployment safety net in order to respond effectively to the record high levels of long-term unemployment.

- Extend all aspects of the ARRA benefits for unemployed workers through the end of 2010;
- Provide an immediate additional extension of 10-to-20 weeks of benefits for long-term jobless workers in all states, with the number of weeks determined by each state's rate of unemployment;
- Simplify the two federal extension programs now on the books (the permanent Extended Benefits (EB) program and the Emergency Unemployment Compensation (EUC) program), providing significant relief to state and local governments now paying the full costs of EB and reducing the enormous burden on state agencies required to implement outdated and unworkable EB rules;
- Create a performance bonus program, similar to that used in the Food Stamps program, to encourage states to adopt proven best practices to improve key aspects of their programs to the maximum extent possible.

2. The Historic Crisis of Unemployment

Never in the history of the nation's unemployment insurance program have more workers been unemployed for such prolonged periods of time. A total of five million Americans have been unemployed for six months or more (a record since data started being recorded in 1948). That represents an unprecedented 33.3 percent of all unemployed workers, a share that has never been reached before in any post-war recession. There are now a whopping 5 million Americans who have been out of work for six months, up from just 1.31 million before the recession began in December 2007.

[2] Congressional Budget Office, Economic Projections, August 25, 2009



At the same time, now 50.7 percent of all jobless workers cannot find jobs within receiving their first six months of UI benefits, which is up from 37.8 percent only one year ago (this is the highest figure recorded in the program's history). Perhaps most disturbing, there are now more than six jobless workers for every job opening in the U.S, a ratio that has surged from 1.7 unemployed workers per opening in December 2007 when the recession began. The current shortage is more than twice as severe compared to the peak of the last jobs slump when there were 2.8 jobless workers for every job in July 2003 (which was the worst shortage during the last jobs slump). Economists are predicting that unemployment and long-term unemployment will remain high throughout 2010 and even into 2011—even if macro-economic growth returns and the official recession ends.[3]

The nation's economy will need to recover the 7 million jobs lost--and gain additional jobs to absorb the growth in the labor force since the recession began--before the unemployment rate returns to manageable levels. Not surprisingly, the Congressional Budget Office predicts that the unemployment rate will remain above 9% through 2011.[4] Were it not for the ARRA, the employment picture would certainly be far worse. One of the nation's leading economists, Mark Zandi, reports that without the stimulus provided by the ARRA, the economy would have lost 500,000 more jobs than it did in the second quarter of 2009, and that the unemployment rate would have been 0.3% percentage points higher at the end of June. With the stimulus provided by the ARRA, Zandi predicts that unemployment will peak at 10.5% next summer, rather than continuing to rise to 12.1% in early 2011.[5]

[3] Ibid.
[4] Ibid.
[5] Moody's Economy.com, Regional Financial Review, July 2009

3. The Critical Significance of Unemployment Benefits & the ARRA

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."[6]
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.[7] 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 underlying the unemployment insurance 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.[8] As one reflection of the significant economic boost to the economy generated by the unemployment provisions of the ARRA and the prior federal extensions, NELP estimates that federally-funded jobless benefits helped circulate nearly $19 billion in hard cash throughout the nation's economy over the six-month period from February to July, not taking into account the recognized multiplier effect. (See attached table 1, which includes the state by state estimates based on the different provisions of the ARRA and the prior extensions).

2. Alleviating Economic Hardship

Even for families who own homes and earn middle-class wages, a layoff in today's economy will often result in extreme economic hardship, including sending household incomes well below the poverty level. Unemployment benefits play a major role in preventing this catastrophic decline.[9] According to a Congressional Budget Office study measuring the income effects of unemployment benefits on jobless workers collecting benefits in 2001 (the last recession) and 2002, only 7 percent of unemployment recipients had family incomes below the official poverty level before losing their jobs. After job loss, nearly one-quarter (23 percent) of

[6] Witte, *The Development of the Social Security Act* (University of Wisconsin Press: 1962), at page 128.
[7] Larson, Murray, "The Development of the Unemployment Insurance System in the United States," 8 Vand.L.Rev. 181, 186 (1955).
[8] 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).
[9] U.S. Congressional Budget Office, "Family Income of Unemployment Insurance Recipients" (March 2004), at page 13.

the families of long-term jobless workers collecting benefits fell into poverty as measured by the official poverty guidelines. However, without those benefits, the poverty rate would have more than doubled, with one-half of the families ending up in poverty. As noted above, the Center on Budget and Policy Priorities now estimates that the ARRA's unemployment insurance extension and $25 increase in weekly benefits checks have thus far kept 800,000 people out of poverty.[10]

The importance of unemployment benefits for families of jobless workers is also reflected by food consumption of the unemployed. On this most basic indicator of family subsistence during tough times, there is no doubt that unemployment benefits help families avoid serious hardship. For example, NELP's 2008 national survey of the unemployed found that unemployed workers who did not receive UI benefits were twice as likely as those with benefits to be forced to skip meals in order to get by financially.[11]

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. One housing agency reported that the share of foreclosures caused by unemployment has increased from 40 percent to 65 percent in the last year alone.[12] Jobless workers can use their unemployment insurance benefits as evidence of the income they need to qualify for federal mortgage modifications under the Home Affordable Modification Program. Workers have to demonstrate 9 months of unemployment benefits to qualify for this assistance—a length of benefits made possible by the Recovery Act.[13]

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. An extensive state study found that 41% of expenditures paid for with unemployment benefits were applied to housing costs.[14] 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.[15]

4. Expanding Federal Jobless Benefits to Respond to the Great Recession

In light of the continued rise of unemployment, record levels and rates of long-term joblessness, and the major surge in workers now exhausting federally-funded jobless benefits, immediate action is needed to expand the ARRA's benefits.

Currently, the ARRA provides the following, in response to the serious challenges facing the unemployment insurance system and families and communities hit hardest by the recession.

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[10] "Keeping 6 Million Americans Out of Poverty in 2009, Estimates Show." Arloc Sherman, Center on Budget and Policy Priorities, September 9, 2009, http://www.cbpp.org/cms/index.cfm?fa=view&id=2910.
[11] Unemployed in America," page 4.
[12] "Unemployment Spike Compounds Foreclosure Crisis," *Washington Post (*August 18, 2009).
[13] Ibid.
[14] State of Washington, Employment Security Department, "Claimant Expenditure Survey, 2005" (January 2006).
[15] 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.

- **Federal Incentives to Modernize the State Unemployment Insurance Programs:** Responding to the outdated eligibility rules that disproportionately deny benefits to low wage and women workers, the ARRA provided $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-to-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 (EB), normally funded 50 percent by the states, through December 2009.

- **Boosting the Purchasing Power of the Jobless:** Responding to the high costs of food, gas and other basic goods and services and the relatively low level of benefits provided by the states (now averaging just $307 a week), the ARRA also increased both federal and state benefits by $25 a week (ending December 2009) and suspended federal income taxes on the first $2,400 individuals receive in jobless benefits in 2009.

- **Subsidizing Health Care for Unemployed Workers:** The ARRA also included a 65% federal subsidy of the health care premiums for unemployed workers who qualify for COBRA continuation coverage.

- **Waiving Federal Interest on Loans Provided the States:** Responding to the growing number of states seeking federal loans to pay unemployment benefits (now totaling 18 but expected to rise to more than 30 states by next year), 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.

As Senate Majority Leader Harry Reid and House Speaker Nancy Pelosi have made clear,[16] the situation surrounding the large numbers of workers exhausting the jobless benefits requires immediate action by Congress. Moreover, there is bipartisan recognition of the need for further action, with Senator DeMint of South Carolina recently stating he would "definitely support" another extension of federally-funded jobless benefits.[17]

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[16] On September 10, Speaker of the House Nancy Pelosi, when questioned about the unemployment benefits about to run out for exhaustees, responded: "We cannot let them run out. . . . It's pretty clear cut . . . . this is very necessary for us to address." [insert Reuters cite] Before the Senate recessed in August, Majority Leader Harry Reid stated that "There is an economic case to be made for extending unemployment benefits," and that "[s]oon after Congress returns to Washington we'll need to address this matter." [insert article cite]

[17] On August 1, Senator Jim DeMint stated on *Fox Sunday News* that he would "definitely support" a further extension of unemployment benefits.

These statements of support respond to the immediate crisis of the 400,000 workers now scheduled to exhaust their unemployment benefits by the end of September, along with another one million workers who will do so by the end of the year, according to NELP's estimates (see attached table 2). Thus, the major question for debate is not whether there should be a further extension, but rather what shape it should take and when will it be enacted? The following are NELP's recommendations for how Congress and the Obama Administration should go about providing urgently needed relief to the families of the unemployed and a continued boost to the local and national economies.

A. Provide Additional Weeks of Jobless Benefits to Workers in All States

The first priority should be to immediately enact additional weeks of extended benefits for long-term jobless workers exhausting all their benefits, ranging from 10 more weeks for workers in states with lower unemployment rates to 20 more weeks in states with the highest rates of unemployment (over 11%).

Current bills introduced by Senator Reed (S.1647) and Congressman McDermott (H.R.3548) represent important first steps in recognizing the need to expand benefits to address the immediate needs of those who are starting to exhaust their benefits. NELP especially commends Rep. McDermott for calling strongly for immediate action for an additional extension for those running out of the Recovery Act extensions this month, stating that "I believe the time to act on extending benefits is now."[18]

The measures described above apply only to those states with highest rates of unemployment (over 8.5%). While extra benefits are especially needed in these states, NELP believes that workers in every state need and should receive additional assistance. Every state has experienced record increases in unemployment rates and unemployment claims over the course of the recession, and in every state, long-term jobless workers will be exhausting all benefits by the end of the year without being able to find work. For that reason, NELP urges that some additional relief should be made available to workers in all states, not just the highest unemployment states.

As illustrated below, even those states with low unemployment rates relative to the national average have experienced a major increase in their unemployment rates, their UI claims and the number of workers exhausting state benefits. When recessions hit, it is critical to recognize the added economic hardship each state experiences, not just the total or absolute levels of distress relative to other states. Notably, the lower unemployment rate states are also some of the smallest states in the nation. Thus, the additional cost of providing these states with extra federal benefits is modest.

[18] "Rep. McDermott Introduces New UI Extension Legislation," Press Release, September 10, 2009 available at http://www.house.gov/mcdermott/pr090910.shtml

States with Unemployment Rates Below 6%

State	Unemployment Rate (3-Month Ave.)	% Increase in Unemployment Rate (2008-2009)	2009 (July) State UI Exhaustions	2008 (July) State UI Exhaustions
Nebraska	4.9%	53%	2,734	1,054
N. Dakota	4.2%	31%	615	180
S. Dakota	5.0%	72%	439	68
Utah	5.7%	72%	4,957	1119
Wyoming	5.8%	81%	1,244	289

Specifically, NELP proposes increasing the federal jobless benefits by 10 weeks for all states (to 30 weeks from the current 20-week minimum), while progressively increasing benefits up to 20 weeks for states with unemployment rates above 11%. Under this formula, workers in the highest unemployment states would be eligible for a maximum of 73 weeks of federally-funded benefits, up from the current 53 weeks.

Current Levels of Federally-Funded Benefits

All States (below 5.9% Unemployment)	6-6.4% Unemployment States	6.5-7.9% Unemployment States	8% + Unemployment States
20 weeks EUC	33 weeks EUC	46 weeks (33 + 13 EB)	53 weeks (33 + 20 EB)
(5 states)	(2 states)	(13 states)	(31 states)

NELP's Proposed Levels of Federally-Funded Benefits

All States (below 5.9% Unemployment)	6.0-7.9% Unemployment States	8 -10.9% Unemployment States	11% + Unemployment States
30 weeks	59 weeks	68 weeks	73 weeks
(5 states)	(15 states)	(23 states)	(8 states)

B. Continue the ARRA's Additional Protections for Unemployed Workers in 2010

NELP also urges that the ARRA's provisions for unemployed workers be extended another year, through to the end of 2010. Specifically, these include the current EUC program (providing 20-33 weeks of benefits), the $25 weekly increase in benefits, the suspension of federal income tax on the first $2400 of benefits collected in the year, and the 65% COBRA subsidy. With the unemployment rate continuing to rise and job losses mounting, the situation for workers will continue to deteriorate even as the recovery takes hold on other fronts. Under these circumstances, it is essential that we provide those who are more recently unemployed with no less support than those who lost their jobs earlier in the recession.

C. Simplify the Federal Extension Programs and Provide State and Local Government Relief

In addition, we urge Congress to simply the two federal extension programs now on the books, the Emergency Unemployment Compensation and the Extended Benefits programs, that now impose major burdens on the states.

Instead of operating these two programs side by side, Congress should temporarily fold EB into the EUC program, not unlike the program that was in place in 1990s.[19] With a merger of these programs, state and local governments would no longer have to pay dollar for dollar all the costs of the EB program for laid-off government employees, an existing requirement that today imposes a steep and onerous burden on state and local finances when they can least afford it. In addition, state UI agencies will no longer have to spend precious time and resources implementing the onerous tracking requirements that govern EB claims. Finally, six states, including Montana, would be entitled to the equivalent of EB benefits that they are not collecting, due to rules requiring states to pass special legislation.

D. Enact "High Performance Bonuses" for States UI Agencies

NELP also proposes that Congress establish a performance-based bonus system for state unemployment agencies, encouraging them to use best practices to improve their UI programs. Currently, DOL monitors and evaluates state administrative performance (paid for 100% by federal UI trust dollars) based on a relatively narrow range of factors, including timely payment of benefits and selected program integrity activities.

A new program of "performance bonuses" modeled on a successful 2002 Food Stamps initiative would enable DOL to create additional program standards that reward a broader range of state activities designed to improve access to the UI program, build a stronger UI infrastructure, and protect against fraud and waste of UI resources. Of special concern, the UI "take up" rate is still very low, as documented in a recent DOL-funded report showing that only about half of job losers (i.e., not those workers laid off, not those who "quit") apply for unemployment benefits.[20] More than half of those job losers who did not apply for UI assumed they would be ineligible. Thus, the need exists to promote model state initiatives that maximize education, outreach, and state system reforms to improve access to the UI program. These efforts are critical not just to job losers who do not file for benefits, but also for workers who will become eligible for UI benefits for the first time through state reforms adopted as a result of the ARRA's UI incentive program. These workers, especially those leaving work for compelling family reasons, are often the least likely to apply for UI benefits.

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[19] See Emergency Unemployment Compensation Act of 1991, Pub. L. 102-164, 105 Stat. 1049, Section 102(b)(3): "Reduction for Extended Benefits. – The amount in an account under paragraph (1) shall be reduced (but not below zero) by the aggregate amount of extended compensation (if any) received by such individual relating to the same benefits year under the Federal-State Extended Unemployment Compensation Act of 1970."

[20] Wayne Vroman, *UI Benefits Study: An Analysis of Unemployment Insurance Non-Filers: 2005 CPS Supplement Results*, September 2008

In addition to improved outreach and education by the state agencies, more can be done to promote and reward model state approaches that address program integrity, both in recouping fraudulent benefits paid to workers and unemployment taxes left unpaid by large numbers of employers. Similarly, the opportunity exists to recognize and reward those states that have adopted model reemployment activities, including counseling of unemployed workers and reemployment reviews.

Recognizing the value of rewarding states that are working to improve their UI take-up rates, program integrity, reemployment services and other state UI administrative activities, NELP recommends legislation modeled on the Food Stamps program, that provides grants to those states that have done the best job in furthering these critical UI functions.

Based on measures of model program performance developed by DOL, eight to ten state UI agencies would be awarded "high performance bonuses" with new federal funding of $25 million to $50 million (the Food Stamp program is funded at $48 million and provides grants to eight states, while also rewarding other state program activities). As under the Food Stamps program, half of the states would receive UI performance bonus grants for the highest state rankings and the other half would receive grants for being the most improved according to the DOL standards.

5. The Economy, not Unemployment Benefits, Are to Blame for Long-term Joblessness

In the media, and likely in this hearing today, we hear some proffer that the more that we extend unemployment benefits, the more incentive we provide people to stay at home and simply collect them. These so-called "moral hazard" effects of unemployment insurance have been extensively studied, and the effects are consistently small. The economic research shows that, in the aggregate, those who collect unemployment benefits stay unemployed *at most* two and half weeks more than those who do not.[21] This line of argument is even less compelling today, when job openings are extremely scarce, and when the length of unemployment must logically be attributed to the economy, not unemployment insurance benefits. As stated above there is now only one job available for every six unemployed workers. Equally important, entire industries are dying, technology is replacing human labor in many fields of work, and countless jobs have left the United States for other countries where labor is far cheaper and more easily exploitable. Thus, we have a large population of unemployed workers whose jobs may never come back, and are now forced to train for new careers. Given these realities, it simply strains credulity for some to assert that extending unemployment benefits at this moment in history will keep people from looking for jobs—jobs simply do not exist.

One unique state survey illuminates the job-finding challenge today. Minnesota's "job gap" survey documents both the significant competition for jobs (comparing the disproportionate number of job seekers to the number of job openings) and the quality of the state's job openings (which is not captured in national data). Like the national data, this 10-year-old survey shows an acute shortage of openings – 8 jobless workers for every opening. This year's survey showed that

[21] Karen Needles, Walter Nicholson, "An Analysis of Unemployment Insurance Durations Since the 1990-1992 Recession" (Mathematica Policy Research, Inc.: March 1999), at 6-7.

the average job opening pays only $10.00 per hour.[22] The largest share of the limited job openings in the state (17.3%) are in the low paid accommodation and food services sector. These employers are not likely to be interested in today's experienced unemployed workers, with skills not suited to this type of service work and who are unlikely to stick in low-paid service jobs when the economy improves.

A proper perspective on the moral hazard effect of jobless benefits in today's economy was eloquently and simply summarized by former Federal Reserve Chairman Alan Greenspan. Speaking before the Joint Economic Committee of Congress during the last recession, Greenspan stated that: "When you get into a period when jobs are falling, then the arguments people make about creating incentives not to work are no longer valid and hence, I have always argued that in periods like this the economic restraints on the unemployment insurance system almost surely ought to be eased to recognize the fact that people are unemployed because they couldn't get a job not because they don't feel like working[23] "

Conclusion

Millions of Americans and their families are depending on Congress to give them the helping hand they need during this time of economic crisis. Likewise, their communities need them to keep their heads above water so that local economies, too, will overcome the recession. There is a simple solution – not a solution with no cost attached to it, but at this point, the cost of inaction is far greater than the cost of action.

NELP, on behalf of the millions of unemployed workers in this country, implores you to enact a robust extension of unemployment benefits for workers in all states, to remove the unnecessary burdens on states and workers that the extended benefits program is causing, and to make a small but essential investment in incentivizing state unemployment insurance offices to provide the best services possible. This time in history and jobless Americans and their communities demand and deserve no less.

[22] Minnesota Department of Employment and Economic Development, Job Vacancy Survey, September 2009.
[23] Joint Economic Committee Hearing, Nov. 13, 2002

Table 1

Federally-Funded Unemployment Benefits Paid, by State, Since Passage of the American Recovery and Reinvestment Act in February 2009

National Employment Law Project, August 2009

State	$25 Weekly Increase in Weekly Benefits (February - July 2009)	20-33 Weeks of Emergency Unemployment Compensation (February - July 2009)	Additional 13-20 Weeks of Extended Benefits (April-July 2009)	Total Federal Funding Distributed
Alabama	$57,819,363	$76,824,207	N/A	$134,643,570
Alaska	$12,729,031	$17,520,264	$7,557,782	$37,807,077
Arizona	$80,756,219	$130,853,941	$14,741,257	$226,351,417
Arkansas	$39,574,912	$45,261,082	$13,287,816	$98,123,810
California	$701,424,119	$1,805,865,664	$414,690,521	$2,921,980,304
Colorado	$60,601,781	$170,615,433	N/A	$231,217,214
Connecticut	$74,515,894	$280,752,736	$56,327,214	$411,595,844
Delaware	$12,718,156	$30,862,865	$938,049	$44,519,070
District of Columbia	$8,013,813	$15,627,977 **	$4,113,490	$27,755,280
Florida	$262,126,563	$711,449,232	$165,913,522	$1,139,489,317
Georgia	$122,990,800	$344,354,833	N/A	$467,345,633
Hawaii	$12,831,200 *	$53,228,632 **	EB not in effect	$66,059,832
Idaho	$23,379,556 *	$67,626,161 **	$2,849,272 **	$93,854,989
Illinois	$252,825,594	$595,655,566	$131,893,689	$980,374,849
Indiana	$126,684,994	$488,533,832	$35,902,357	$651,121,183
Iowa	$42,817,719	$90,430,142	EB not in effect	$133,247,861
Kansas	$29,054,038 *	$93,481,407 **	N/A	$122,535,445
Kentucky	$64,396,319	$54,380,522	$27,375,645	$146,152,486
Louisiana	$26,780,188 *	$46,964,699 **	EB not in effect	$73,744,887
Maine	$19,233,225	$31,861,396	$5,448,213	$56,542,834
Maryland	$51,688,069	$225,226,702 **	EB not in effect	$276,914,771
Massachusetts	$109,916,525 *	$425,571,698 **	N/A	$535,488,223
Michigan	$249,472,363	$620,135,295	$180,301,646	$1,049,909,304
Minnesota	$90,016,463	$203,157,458	$40,753,261	$333,927,182
Mississippi	$34,747,763	$54,130,565	EB not in effect	$88,878,328
Missouri	$74,913,270	$150,084,329	$20,373,920	$245,371,519
Montana	$12,536,969 *	$21,568,073 **	$1,064,624 **	$35,169,666
Nebraska	$15,910,919	$38,549,834	EB not in effect	$54,460,753
Nevada	$67,306,031	$184,374,403	$27,334,458	$279,014,892
New Hampshire	$16,314,606	$24,180,348	N/A	$40,494,954
New Jersey	$207,722,244	$707,418,174	$89,470,581	$1,004,610,999
New Mexico	$25,037,981	$42,916,485 **	N/A	$67,954,466
New York	$259,378,919 *	$749,915,404 **	$192,953,844 **	$1,202,248,167
North Carolina	$184,867,925	$483,980,465	$55,554,638	$724,403,028
North Dakota	$5,037,225	$8,703,093	EB not in effect	$13,740,318
Ohio	$203,952,913	$391,176,192	$104,555,497	$699,684,602
Oklahoma	$23,544,988 *	$53,553,678 **	EB not in effect	$77,098,666
Oregon	$122,966,378	$233,206,291	$36,889,405	$393,062,074
Pennsylvania	$215,932,913 *	$616,757,937 **	$152,721,815 **	$985,412,665
Puerto Rico	$56,765,406	$107,841,584	$7,790,972	$172,397,962
Rhode Island	$21,912,869	$66,116,485	$16,305,005	$104,334,359
South Carolina	$75,004,175	$159,782,262	$31,525,728	$266,312,165
South Dakota	$3,930,394	$3,915,731	EB not in effect	$7,846,125
Tennessee	$92,789,994	$160,977,791	N/A	$253,767,785
Texas	$168,431,188 *	$448,047,039 **	N/A	$616,478,227
Utah	$26,653,144	$58,506,481	EB not in effect	$85,159,625
Vermont	$11,000,888	$18,422,463	$1,421,904	$30,845,255
Virgin Islands	$940,394 *	$4,228,322 **	EB not in effect	$5,168,716
Virginia	$69,067,469	$148,290,391	N/A	$217,357,860
Washington	$109,124,313	$268,234,146	$36,690,394	$414,048,853
West Virginia	$20,472,688	$27,283,649	N/A	$47,756,337
Wisconsin	$131,653,388	$225,285,172	$44,763,068	$401,701,628
Wyoming	$6,924,175	$10,071,860	EB not in effect	$16,996,035
US Total (in billions)	*$4.8*	*$12.1*	*$1.9*	*$18.8*

Sources and Methodology

The state totals for the ARRA's $25 weekly benefit increase (Column 1) are estimates based on state data reported by the U.S. Department of Labor. The state totals for the federal extensions (Columns 2 and 3) are based on data reported by the U.S. Department of Labor, which do not adjust for gaps in the data reported by some states. State totals for the Emergency Unemployment Compensation program (Column 2) indicate amounts paid as of February, including payments authorized under the ARRA and prior legislation. All other totals represent amounts directly attributed to the ARRA.

Notes

- * Indicates states where the estimates cover the period from February through June due to data limitations for the month of July.
- ** Indicates states where data was reported through June and NELP included an estimate for July payments.
- N/A Indicates states where data was either not reported by the state or benefits were not distributed until after July 2009.

Table 2

Estimated Number of Federal Extension Exhaustions, by State Through September and December 2009

National Employment Law Project, August 2009

State	Total Exhaustions through September 2009	Total Exhaustions through December 2009
Alabama	0	37,794
Alaska	2,252	3,700
Arizona	5,142	22,632
Arkansas	5,076	8,273
California	68,713	154,328
Colorado	0	13,853
Connecticut	4,922	11,739
Delaware	0	3,518
District of Columbia	945	3,703
Florida	27,359	114,508
Georgia	13,844	58,887
Hawaii	2,774	5,456
Idaho	3,055	9,395
Illinois	20,266	50,028
Indiana	9,848	50,343
Iowa	19,845	30,914
Kansas	0	3,819
Kentucky	3,814	14,025
Louisiana	0	8,773
Maine	0	4,838
Maryland	15,650	25,681
Massachusetts	0	39,530
Michigan	Table 1 25,534	62,753
Minnesota	6,776	13,754
Mississippi	12,895	19,109
Missouri	4,091	20,556
Montana	2,814	5,688
Nebraska	9,308	13,849
Nevada	5,041	14,135
New Hampshire	0	1,478
New Jersey	22,355	41,576
New Mexico	0	1,577
New York	0	89,662
North Carolina	15,033	32,171
North Dakota	3,187	4,195
Ohio	11,642	64,545
Oklahoma	0	5,943
Oregon	4,981	11,235
Pennsylvania	19,960	60,910
Puerto Rico	1,537	6,437
Rhode Island	2,489	4,483
South Carolina	13,775	21,852
South Dakota	954	1,543
Tennessee	8,299	32,788
Texas	0	48,596
Utah	10,731	18,226
Vermont	1,172	1,860
Virgin Islands	1,052	1,350
Virginia	0	12,877
Washington	4,628	10,455
West Virginia	0	3,756
Wisconsin	8,834	24,180
Wyoming	2,158	3,900
Total	*402,750*	*1,331,175*

Senate Finance Committee Hearing
Unemployment Insurance Benefits: Where Do We Go from Here?

Responses to Additional Questions for Ms. Beth Shulman
Board Chair, National Employment Law Project

Questions From Senator Menendez

1. Why should we extend benefits now, since we see that the economy is picking up?

While we are seeing signs that demonstrate that we are on the road to economic recovery, the unfortunate fact of the matter is that our jobless crisis continues to grow, and will for likely the next six-to-twelve months, and that even once the recovery is firmly underway, unemployment is historically a lagging indicator, that is, something that recovers at a far slower rate than the economy as a whole.

Today's report from the Department of Labor demonstrates how desperately unemployed workers need additional weeks of benefits. Unemployment inched higher, now 9.8%, job loss was 263,000, a figure that is about 100,000 more than experts had predicted, and long-term unemployment (longer than six months) is rising at three times the rate of growth of overall unemployment. NELP's analysis of long-term unemployment, http://www.nelp.org/page/-/UI/LongTermChart.pdf, shows that since December 2008, there has been a 110% increase in long-term joblessness, compared to a 36% increase in the total unemployed – meaning that the numbers of jobless workers who find themselves long-term unemployed has increased three times as fast as joblessness overall. There are now 5.4 million Americans who have been out of a job for six months or more, representing a startling 35.6% of all jobless workers.

So while there is some slow-down in the rise of unemployment, those ranks of workers who are receiving their benefits through federally-funded extensions are growing at an alarming rate. Presently, there are six unemployed workers for every one job opening in American, and those workers do not even include people who have given up on their job searches, or are working part-time or sub-standard jobs because they have no other options.

And as stated above, unemployment is a lagging indicator of recovery for reasons which make perfect sense. Once businesses get back on their feet, they will first concentrate on paying off any debt they incurred to survive the recession, and will make sure their business is fully capable of supporting more employees before they bring anyone on. The instinct will be to not hire until absolutely necessary and until they are absolutely sure there is a steady stream of revenue to support that worker in the long-term. Past recessions have shown us that the jobless recovery happens last, and this recession will be no different. Indeed, as Alan Greenspan received observed, the jobless recovery will be the last step of our recovery as a nation and helping the long-term jobless with additional benefits is critically important.

2. Can you say a bit more about you are hearing from workers these days who are reaching the end of their jobless benefits, how they are getting by? What are the human consequences of what we are discussing today?

There is not a day when the NELP phone and email lines are not inundated by workers who are terrified and desperate about their impending exhaustion of benefits. We hear from people who have sent out thousands and thousands of resumes over the past two years, and most of them are people who have worked their entire adult lives without any periods of unemployment. Though opponents of extensions attempt to portray people as complacent to stay at home, lazily enjoying the receipt of their unemployment insurance, nothing could be further from the truth.

Parents feel like failures because they can barely provide for the merest of necessities for their children. There is no money for class trips, new school clothes, and family movie nights. Putting food on the table and a roof over their heads is all they can afford. Adults are experiencing very deep periods of depression, brought on by their ever-increasing periods of unemployment and their self-imposed shame at feeling useless and unable to provide for themselves and their families.

Families are losing their homes, and being forced to move in with friends and relatives. People are foregoing healthcare, ignoring conditions that might become serious, and not filling prescriptions that are medically necessary, because they simply cannot afford the costs of health care. Parents are skipping meals so their children can eat, though feeding their children far less and far less healthy meals than are ideal.

Two national surveys of unemployed workers draw particular attention to the struggles they are facing: http://www.nelp.org/page/-/UI/show8860.pdf and http://www.heldrich.rutgers.edu/uploadedFiles/Publications/Heldrich_Work_Trends_Anguish_Unemployment(1).pdf.

In short, people are terrified. When the federal life-line ends, they don't know what they will do. Below are a few excerpts from emails NELP has received which provide a sense of the level of desperation that exists.

* * * * * * * *

> "I am a divorced 57-year old female and live in New Jersey. I have worked since I have been 16 years old never without a job, and I raised my daughter by myself without any government assistance. Today I am proud to say she is a 3rd grade school teacher. I was laid off in September 2007 when my position was outsourced. I cannot find work. Every day I am searching, it seems most Accounting jobs (accounts receivable) have been outsourced to India. Alot of manufacturing companies have left New Jersey or has outsourced to China. I always thought I had a high demand position and never thought I would be living this nightmare. This has been very depressing year, my savings are almost depleted and now I will have to drop my medical insurance and will lose my home. I cannot afford it. My extension is up at the end of September. I don't even want to think what I will do." N.I. from New Jersey

"Several of my friends and I have been unemployed since early 2008 and have exhausted all of our benefits. We are educated, over the age of 40, and have worked all our lives, it doesn't matter. What seems to occur is that the extensions are being processed and approved late, and there is a 3 to 7 week gap before any extension money, has been released. It is not a steady flow of extension money. You are just managing to put food on the table and pay the most minimum expenses when the payments are on time, but a lap in the flow depletes your savings if you have any left. There is nowhere to turn." L.L. from California

"My unemployment extension expires this week, I just had cancer surgery, my "cobra" expires Oct. 15th and I can't find work at 61 years old with the competition! Unemployment is the only thing keeping food on the table. I sit here without a job, no health insurance and need radiation therapy from a recent cancer surgery and my main concern is my family and taking care of them of them." R.T. from Florida

"I am a single Mom with a 13 year old son and a college student. I was laid off December 2007 when my company sold the division I was working in. I have been looking for employment since then. I have a Master's Degree and 20 years of solid employment, and I have not been able to find any kind of a permanent position - in support staff or management. I have literally been surviving on umemployment and substitute teaching, which because of so many people are unemployed, is becoming less and less reliable as supplemental income. I've never experienced unemployment before, and I have worked since I was 14 years old. I never imagined I'd find myself in this situation. I'm a month away from being homeless if something doesn't turn up." B.A. from Illinois

* * * * * * * *

The National Employment Law Project thanks for your leadership on this issue. We urge you to support the broadest and most robust extension possible, for the over 15 million unemployed workers in this country deserve the best that we can provide.

Senator Debbie Stabenow (D-Michigan)

Statement for the Record
Senate Finance Committee, Hearing on Unemployment Insurance
September 15, 2009

Mr. Chairman, in my state of Michigan, we are currently facing some of the hardest times in the history of our state. Our unemployment recently reached 15%, the highest in the nation, and we expect that it will continue to rise. Hundreds of thousands of workers have already been displaced, (need comma) and it is expected that 310,000 jobs will be lost in Michigan in 2009. I urge my colleagues in Congress to act quickly to extend unemployment insurance to the millions of people who are out-of-work in America today.

The extra weeks of unemployment insurance that Congress granted under the American Recovery and Reinvestment Act were critical. However, those weeks are starting to run out. In Michigan, we already started to see people exhausting their benefits in August. By the end of this month, 18,000 more people will lose benefits. And by the end of this year, 99,000 people in Michigan who are still trying to find work will have used up their unemployment insurance. To make matters worse, thousands of people are still losing their jobs every day. The Unemployment Insurance Agency in Michigan answers about 13,000-15,000 calls daily. The demand for services is perhaps greater than it's ever been in Michigan.

Times are tough in Michigan, but so are we. The people of my State are strong and resilient. Thousands have already enrolled in schools and training programs so they have the skills needed for the jobs of the future – in green industries, health care (two words), and technology. I have been working every day in the Senate to bring new industries, jobs, (comma) and training to the State and to help our economy diversify. In the long term, Michigan will pull through these tough times.

But right now, families are struggling to put food on the table and pay their bills. We are one of the hardest-hit (hyphen) states when it comes to home foreclosures. Communities are struggling and businesses are closing. All of these struggles can be eased with the extension of unemployment benefits. Extending unemployment insurance will help stabilize communities in crisis.

According to the United States Department of Labor, every $1 spent on unemployment benefits by the government generates $2.15 in economic activity. This bill is needed now – not only for our workers, but also to further our national economic recovery.

Extending unemployment insurance is a moral imperative. We are facing one of the worst recessions in American history, and middle-class Americans are paying the price. We owe it to these hard-working (hyphen) families to ease the burden of unemployment and give them the transitional assistance they need until they can find employment. I urge my colleagues on the Committee to quickly approve this bill, so we can get it to the floor and get help for those who need it most right now.

NATIONAL ASSOCIATION OF STATE WORKFORCE AGENCIES), SUBMITTED BY THOMAS S. WHITAKER, PRESIDENT, AND DEPUTY CHAIRMAN OF THE NORTH CAROLINA EMPLOYMENT SECURITY COMMISSION ON SEPTEMBER 15, 2009 TO THE SENATE COMMITTEE ON FINANCE

Mr. Chairman and Members of the Committee, thank you for the opportunity to testify today at this hearing entitled, "Unemployment Insurance Benefits: Where Do We Go From Here?" The National Association of State Workforce Agencies (NASWA) submits this testimony for the record.

The members of our Association constitute State leaders of the publicly-funded workforce investment system. The mission of NASWA is to serve as an advocate for state workforce agencies, as a liaison to workforce system partners, and a forum for the exchange of information. Our organization was founded in 1937. Since 1973 it has been a private, non-profit corporation, financed by annual dues from our member agencies and other revenue.

The Economic Situation

As the economy enters its 20th month of probably the worst economic recession since the Great Depression, the employment situation continues to deteriorate, but at a slower pace. Here are some relevant statistics:

1. Nonfarm payroll employment declined by 216,000 in August compared to 276,000 in July. The economy has shed 6.9 million jobs since the beginning of the recession in December 2007. **(See Chart Number 1 in Appendix)**
2. The unemployment rate was 9.7 percent in August compared to 9.4 percent in July and 4.8 percent at the beginning of the recession. **(See Chart Number 2 in Appendix)**
3. The number of unemployed persons hit 14.9 million in August compared to 7.7 million at the beginning of the recession. **(See Chart Number 3 in Appendix)**
4. Over the past year, the number of unemployed workers eligible for UI, has more than tripled. **(See Chart Number 4 n Appendix)**
5. Nearly 10 million workers are receiving either state or federal unemployment compensation. About 3.5 million of these workers are receiving federal extensions of unemployment compensation authorized under the Recovery Act. **(See Chart Number 5 in Appendix)**
6. The number of workers unemployed for 27 weeks or more is 4.9 million; more than triple the number at the beginning of the recession. **(See Chart Number 6 in Appendix)**
7. The average duration of unemployment has increased to almost 25 weeks, which is the longest average duration of unemployment since BLS began keeping records in 1948. By comparison, the average duration of unemployment during the 1981-1982 Recession was only about 18 weeks. **(See Chart Number 7 in Appendix)**
8. There are only about 3 million job openings available today, making the ratio of unemployed job seekers to available job openings as much as 5 to 1 nationwide and much higher in some states and localities. **(See Chart Number 8 in Appendix)**
9. Even if we filled all job openings with unemployment insurance claimants, we still would have about 7 million workers on unemployment compensation and 11 million unemployed workers overall. **(See Chart Number 9 in Appendix)**

10. Record numbers of workers are being served by workforce programs -- the most recent data available show almost 31 million workers served by the workforce system in the 12-month period ending March 31, 2009. For the same period a year earlier, the workforce system served 19 million persons. **(See Chart Number 10 in Appendix)**
11. Employment services have seen a 45 percent increase in persons served for the 12-month period ending March 31, 2009; serving more than 18 million American workers and far exceeding any other employment and training program. For a similar period in 2008, the program served 13 million persons. **(See Chart Number 11 in Appendix)**
12. The number of persons served in the Workforce Investment Act (WIA) Adult program has skyrocketed by 110 percent. Over the four quarters ending March 31, 2009, the WIA Adult program served 4.6 million participants compared to 2.1 million participants over a similar period in 2008. **(See Chart Number 12 in Appendix)**

Although some economists have speculated the recession might be over, we know unemployment lags economic recoveries. The Administration's Mid-Session Economic Review projects the monthly unemployment rate will peak at above 10 percent early in 2010 before beginning to decline in the middle of 2010. Private consensus projections show similar patterns. With as many as five workers for every job opening on average, states will face major challenges in the coming months reemploying unemployed workers, administering unemployment benefits and helping unemployed workers acquire new skills.

The Structure of the Unemployment Insurance System

The unemployment insurance (UI) system is a unique federal-state partnership, grounded in federal law, but administered through state law by state officials. It provides temporary, targeted, timely and partial wage replacement to laid-off workers. Created by the Social Security Act of 1935, the UI system has been a successful social insurance program for many years. The system is decentralized to the state level to address the varying economic problems among the states. State unemployment benefits are financed through state payroll taxes, which are held in individual state trust fund accounts in the Unemployment Trust Fund in the U.S. Treasury.

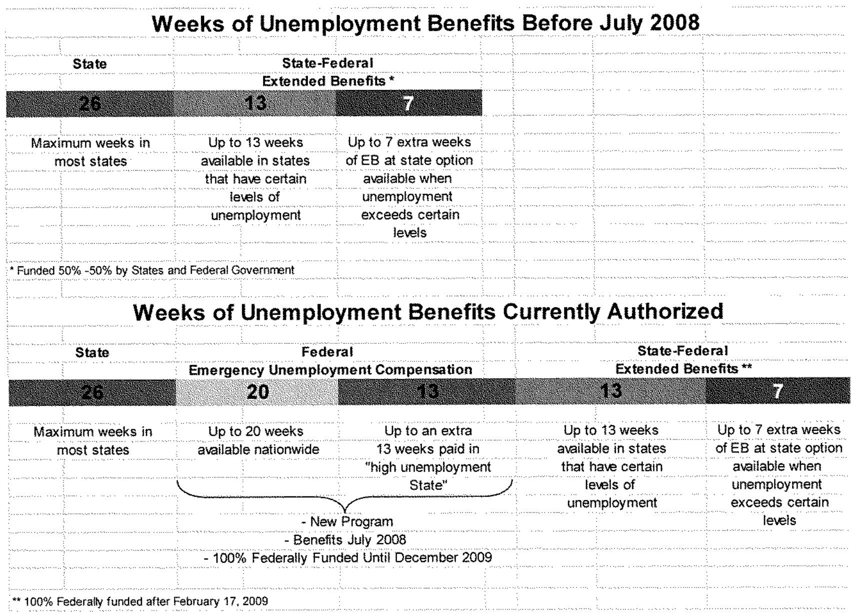
The amount of benefits for which an individual qualifies is based on his past work and wages. Up to 26 weeks of benefits are available in most states. However, most UI beneficiaries are experienced workers who go back to work before receiving their maximum entitlement. During periods of high unemployment an additional 13 or 20 weeks of extended benefits (EB), financed equally by the states and federal government, may be available. Congress may also act to provide special federally financed benefits during recessions.

The American Recovery and Reinvestment Act (The Recovery Act) provided the following benefits:

- Extended the Emergency Unemployment Compensation (EUC) program, commonly known as EUC08, until December 31, 2009.
- Temporarily increased benefits by $25 a week through 2009, which phases out June 30, 2010.
- Temporarily modified provisions in the permanent federal-state extended benefits (EB) program in which the Federal government pays 100 percent of EB benefit costs until the end of 2009 with a phase out to June 1, 2010.

- Provided for as much as $7 billion in special distributions from the Unemployment Trust Fund (UTF) to the states that have certain benefit provisions under the section known as "Unemployment Insurance Modernization Act."
- For insolvent state UI programs receiving loans to pay benefits, the Recovery Act waived charging interest on these loans until January 2011.

The U.S. Department of Labor chart below illustrates the number of weeks available to UI claimants after the first extension was passed by Congress in July 2008.



Source: U.S. Department of Labor, Employment and Training Administration, Office of Workforce Security.

The Current State of the Unemployment Insurance System

Insufficient Federal Funding of Administration

While much as been written about problems states have encountered with unemployment insurance call centers and claims processing, states have done an extraordinary job reacting and adapting to this unprecedented challenge.

States have been processing unemployment insurance (UI) claims on outdated computer systems, many originally developed in the 1970s to handle a fraction of states' current claim loads. Many states continue to have old technology and crumbling technology infrastructure as the foundation for their unemployment insurance systems. A number of states have experienced system failures as they managed the massive caseloads during this recession and some states still are at risk of system failure. How old is the current state UI technology? A recent survey of the states indicates the median age of these computer systems is 23 years old.

Telephone call centers also were in the news as they are one of the two primary methods of taking unemployment insurance claims, the other primary method being over the internet. A number of states have requested funds to expand or upgrade their call center technology to add capacity for processing initial claims or to do one or both of the following: (1) Improve their efficiency in handling UI claims inquiry calls, and (2) Replace aging and outdated interactive voice response systems used to process weekly continued UI claims.

The cost to implement and maintain these UI systems is considerable. The most recently completed state systems cost in excess of $50 million. The U.S. Department of Labor is encouraging states to form consortia to share in the development and costs of new systems using up-to-date technology.

About $500 million was made available to states this year under the Recovery Act to ameliorate underfunding of UI administration. But states have been underfunded by at least $500 million per year since the 1990s. Some states have filled this gap with approximately $200 million of their own funds, but this is uneven among states and is inconsistent with the original design of the program. Moreover, due to state fiscal crises, these added state funds appear to be declining. Under the Social Security Act, the federal government is supposed to provide UI administrative funds to the states for "proper and efficient administration" of the system. It should fully fund administration of the system.

UI Program Integrity and Reducing Fraud

The lack of capacity and supporting technology to process appeals has slowed claims processing in many states. A number of states have requested funds to improve state appeals processing systems by, for example, purchasing digital audio recording capability to capture, maintain, index, share, and archive clear and accurate recording of appeals hearings.

Unemployment insurance (UI) separation issues account for more than 21 percent of all UI overpayments and are the second largest cause of UI overpayments, reaching almost $900 million in 2008. The Separation Information Data Exchange System (SIDES) will shortly expand from six states to 15 states in the coming months and will reduce the rate of overpayments and also the cost of processing separation data. SIDES is an electronic web-based system that enables the transmission of unemployment insurance separation information between state agencies and employers. When fully operational by the end of 2009, SIDES will improve timeliness of UI claims processing, provide significant administrative and benefit cost savings, dramatically improve the accuracy of separation information, and reduce improper benefit payments and appeal reversals.

States have expressed a need for an array of other technology related projects, including funding to replace obsolete desktop computers, mail handling software and mail processing equipment, laptops for field auditors, accounting systems, and aged document management and imaging systems.

Insolvency of Some State Programs

Insolvency of state UI programs has received much media attention recently, but under federal law insolvent states still must pay benefits by borrowing either from the federal government or private sources. According to the U.S. Department of Labor Mid-session FY 2010 review, *"Very large amounts of borrowing* (by state UI programs) *are projected over the next few years. The balance of outstanding loans is expected to increase from the current $14 billion to a peak end-of-year balance of $90 billion in FY 2012."* After borrowing, state UI programs must not only repay their loans, but correct their fiscal imbalances by raising taxes or cutting eligibility or benefit levels. This can lead to relatively smaller and less effective state UI programs.

States set their own taxable wage bases, which in 2009 ranged from $7,000 to $35,700. In contrast, the taxable wage base under the social security old age, survivors and disability insurance program was $106,800 in 2009. Each state also establishes tax schedules that determine individual employer tax rates based on each employer's experience drawing down funds. State tax rates ranged in 2009 from zero in 19 states for employers who don't draw much out of the system to as much as 15.4 percent of taxable payroll on high-cost employers in Massachusetts.

Insolvent state UI programs borrowing in this recession tend to have high unemployment rates that have increased substantially since 2007 and relatively low taxable wage bases that are not increased automatically each year. These characteristics tend to create an imbalance with benefits growing at a more rapid rate than taxes, resulting in insolvency during serious recessions. To assist insolvent state UI programs, the recently enacted Recovery Act provided interest free loans until December 31, 2010.

A primary factor in state insolvency is comparatively low taxable wage bases in many state UI programs. Thirty-five of fifty-three programs operate with fixed taxable wage bases that change only through state legislative actions. Just one of these states has a taxable wage base above $14,000 (Connecticut at $15,000). In contrast, the other eighteen UI programs operate with an indexed taxable wage base (a base that automatically increases with increases in average wages per worker). Their taxable wage bases averaged about $24,000 in 2008. Indexation has been present in these states for more than 20 years. Adjusting for state size and past costs, their UI trust funds are much larger than for the non-indexed states. Only six of the 21 states currently insolvent have indexed taxable wage bases while six of eight states with the most ample reserves, as measured by their High Cost Multiple, have indexation.

One solution to insolvency would be for some state UI programs to increase and index their taxable wage bases and seek ways to reduce the rate of growth in benefit outlays to correct their imbalances. These changes would be small compared to other major social insurance programs. State unemployment insurance costs in recent good times were only about 0.5 percent of employee compensation compared to 5.7 percent for Social Security and Medicare or 1.6 percent for workers' compensation.

Permanently Fund Extended Benefits with Federal General Revenues

The federal government also might consider permanently funding the federal-state extended benefits (EB) program with general revenues only. The program does not work well. It has been superseded by emergency extensions usually funded with general revenues in every recession since 1973. At best it operates as a "trip wire" to alert Congress to consider emergency extensions bills. Full federal funding probably would induce some states to adopt the optional EB triggering mechanism based on total unemployment rather than insured unemployment, which would make it easier for such states to activate the program than the mandatory trigger using insured unemployment. Such a permanent reform would recognize no two recessions are alike and Congress passes federally funded emergency programs during recessions anyway.

Policy Considerations for the Federal Government

Fiscal and monetary policies remain expansionary, but their positive effects come with significant time lags. The Recovery Act also has time lags, but positive effects are beginning to show up, such as in the successful completion of the summer youth program and the implementation of the various other provisions by state and local governments. However, with 15 million workers still unemployed and the economy generating only about 3 million job openings, more progress toward recovery is needed to help American workers.

This fall Congress faces difficult questions. At a time when some might want more short-term stimulus and aid for the unemployed, it also faces raising the national debt limit when Americans are not only concerned about the current difficult situation, but also the growing national debt built up by many years of annual deficit spending.

If general fiscal and monetary policies and the Recovery Act are not enough to help unemployed Americans in the near term, what else can the federal government and states do to help them until substantial job growth puts them back to work?

Extend Emergency Unemployment Compensation

We understand many workers are exhausting their UI benefits and the NASWA Board of Directors will be meeting next week to adopt a formal position on the extension of EUC08 and whether to add additional weeks. In addition, the NASWA Board will consider other policy initiatives such as a separately funded summer employment youth program, extension of interest-free loans to states, the shared work program, additional funding for reemployment services, and public service employment programs. We will forward NASWA's new policies to the Committee the week of September 28th.

Reemployment Services (RES)

Some workers are able to adjust to job loss without aid. These workers generally are well educated, have substantial savings, and have contacts that help them obtain new jobs and gain new skills. But many workers need assistance to select the adjustment strategy that is best for them among many options. This includes whether to look for a good job in a growing sector or take the time to enter a training program to build new skills that will foster future earnings growth.

This is the value of reemployment services. No other institutions are equipped to provide job finding services and training to such a large and diverse group of workers at such low cost other than State Workforce Agencies.

Providing reemployment funds to help states deploy reemployment initiatives to the nation's unemployed, especially those collecting unemployment insurance, should be a high priority for Congress. An investment of $500 million for reemployment service grants would assist 1.4 million unemployment insurance claimants get back to work. These grants provide job search tools, early intervention services, career guidance, job referrals, and training for UI claimants. Because the average weekly benefit of unemployment compensation is approximately $300, investing $500 million in reemployment services alone could save the UI system about $840 million in benefit outlays by decreasing the duration of these UI claimants by about two weeks.

Reemployment and Eligibility Assessments (REA)

The REA initiative is designed to make sure unemployment insurance claimants are searching for work and to help them find jobs faster through individualized job search and training services. In New York State, for example, participants found jobs approximately two weeks faster than those in a control group. Other states have had a similar experience. Some 34 states have secured REA grants from USDOL, but more funding is needed.

Administrative Funding

The UI system will be processing very high workloads for the next 12-to-24 months with insufficient levels of funding to properly and efficiently administer claims. Most states need to recruit and train staff to handle the telephone call volume, to resolve claims issues on a timely basis, to ensure integrity in the claims and tax processes and to make the systems changes needed to allow increased automation and customer self-service. However, the system is showing signs of degradation as Government Performance and Results Act (GPRA) measures of First Payment Timeliness, Appeals Timeliness, Detection of Overpayments, and Facilitation of Reemployment are well below achieving their goals.

Shared Work

The Shared Work program, operating in 17 states, is an effective layoff aversion strategy. In New York State, for example, from October 2008 through August 2009, 2,057 firms and 50,731 participants registered in the program, representing a 659% increase of firms and 538% increase of participants. Increased federal financial support and technical assistance to the states is needed. Also, Congress might consider Senator Reed's bill, S. 1646, to remedy a technical problem that has deterred USDOL from issuing guidance. This would reduce uncertainty about state unemployment insurance law compliance with federal law and allow other states to enact a shared work program with confidence their new laws would be in compliance with federal law.

Correct Inequitable Treatment under the Extended Benefits Program

For employers subject to the federal unemployment tax, the federal-state extended benefits program is financed half from federal unemployment taxes and half with state unemployment taxes. For employers not subject to federal unemployment taxes, such as state or local governments, they must reimburse the state system for the cost of extended benefits for workers they have laid off. Since employers subject to federal unemployment taxes have been temporarily relieved of the federal half of this burden by the full funding of extended benefits by federal general revenues, reimbursable employers would like equal treatment and receive the same relief from federal general revenues. This would not only be more equitable treatment for reimbursable employers, but would help state and local governments deal with their fiscal crises and perhaps avoid some layoffs.

Lessen Administrative Burden of Extended Benefits Work Search Requirements

Originally crafted in 1980, the federal-state extended benefits program requires claimants to actively engage in a *"systematic and sustained effort"* to obtain work and provide *"tangible evidence"* of an active job search. Most states have not administered the EB work search requirement since the early 1990's and, at that time, states generally handled claims by mail or in person and the unemployment insurance system was able to review and store tangible work search documentation. Today's claim-filing environment, largely automated via telephone or the internet, does not lend itself easily to this type of tangible data collection. Reengineering automated systems to accommodate and store tangible work search documentation creates physical storage problems for states and demands labor-intensive oversight by state staff. States would like Congress to consider a modification, allowing them the flexibility to replace review of the work search documents with some form of weekly random audit composed of a sample of EB claimants documentation.

Innovative State Approaches

The following are examples received over the last 48 hours how states are helping UI claimants get back to work. NASWA would be happy to expand this list to all states.

Florida

In Florida, all UI claimants are registered as job seekers in the "Employ Florida Marketplace" within 24 hours of filing for unemployment benefits. Florida allows its regional workforce boards to develop local strategies targeted to their unique local needs. Florida's Priority Re-Employment Program (PREP) targets Unemployment compensation claimants who are on the 4th week of their claims for early service intervention.

Florida is providing regions with a list of Extended Benefit claimants (those claiming benefit for more than 59 weeks) so that intensive staff assisted services may be offered to them as appropriate. The State plans to acquire Help Wanted Online (HWOL) and the Transferable Occupation Relationship Quotient (TORQ) software to provide local regions assistance in their efforts to assess the needs of unemployment insurance claimants and to match them with existing job vacancies.

Idaho

Since 1996, Idaho employers have diverted 3 percent of their state unemployment insurance taxes to a Workforce Development Training Fund that subsidized the cost of training workers for newly created jobs or for new jobs if existing workers are at risk of being laid off. In that time, $48 million was committed to train over 20,000 workers for 75 companies at an average cost of under $1,900. Wages for these workers have risen over time, and in the last three year the average wage has been just under $15 an hour plus employer-paid health care. Even during the past year in the midst of the recession, commitments for $4.4 million have been made to 15 employers to train nearly 1,600 workers.

The Employer Correspondence Online Reporting System, or ECORE, was developed so employers can correspond directly with the Idaho Department of Labor. This provides instant messaging, updating addresses, providing separation information, determining addresses for mailing separation statements, managing third party accounts and viewing account activity, statement of benefit charges and charges to their accounts for the current quarter.

Business services representatives have been designated throughout the state to work with employers in their areas to identify future work force needs. Key staff in each of the 25 local offices are being trained in this business services strategy that will focus training resources in the identified direction to ensure businesses have the skilled workers they need to successfully expand. These workers will be training the rest of the local office staff so that the work force demands of local businesses will be a priority throughout the department's network.

Kansas

In July, Kansas implemented a process by which UI claimants are automatically registered for job search services available at the State's official labor exchange, which is part of NASWA's National Labor Exchange.

Kansas received a Reemployment Elgibility Assessment (REA) grant that will help it update its model for identifying claimants in need of special re-employment services and increase the staff available to provide those services. The goals of this REA project are to decrease the number of weeks claimants spend on unemployment by facilitating rapid re-employment and to decrease the likelihood of UI overpayments. Through the project, a revised worker profiling model will more accurately identify claimants most likely to exhaust their UI benefits. The existing model was developed in 1995 and hasn't been revised since.

Kansas has used a portion of new additional administrative funds to provide dedicated computers and staff in a number of their centers. The computers are for online UI filings. Staff members are trained to assist claimants in completing online UI applications and using other online services. This not only helps reduce the workload on the UI call center by encouraging more claimants to file online, but it also helps build the connection between claimants and the workforce centers.

Finally, Kansas is developing a "Wage Learner Model" that will help companies avoid permanent layoffs. The model allows employees on reduced work hours to use that time in training programs, while still collecting partial unemployment benefits for their lost wages.

Michigan

No Worker Left Behind is a tuition free program in collaboration with the state's workforce agencies, some of Michigan's largest employers and local community colleges. It provides up to two years worth of free tuition to any community college, university or approved training program. Workers pursue a degree or occupational certificate in a high-demand occupation or emerging industry, or in an entrepreneurship program. Since *No Worker Left Behind* was launched in August 2007, almost 89,000 workers have entered education and training programs.

Montana

Montana's legislature passed "Unemployment Insurance Modernization" legislation that provides unemployed workers with an alternate base period, benefits for part-time workers seeking part-time work, and additional benefits of up to 26 weeks for dislocated workers who have exhausted their regular UI benefits and are in a state-approved training program.

Recovery Act Workforce Investment Act (WIA) funds are being used extensively to train and support dislocated workers, many of whom are unemployment insurance claimants and need reemployment assistance. Some 25 new workers will be in place across the state to provide Reemployment Services by October 1, 2009. The state workforce agency also is working with the Governor's Rapid Response team to share information about programs to help the unemployed.

New Jersey

New Jersey Governor Jon Corzine announced yesterday the *RETURN-to-Work* initiative designed to help long-term unemployed workers – those who have exhausted all available state and federal unemployment benefits get back to work. Under the program, any private sector employer can be reimbursed for a portion of an eligible new employee's hourly wage rate for up to 12 weeks. The grants are capped a $2,400 per new hire and employers must retain new hires for at least six months.

Oregon

In Oregon, the focus has been on UI claimants most likely to exhaust benefits, and provide services that help them return to work earlier than they would have without assistance. Oregon's *WorkSource* staff re-engage with UI recipients, following up every few weeks to assist with job searches, resume writing, or provide other assistance as needed. By shortening the duration of unemployment claims, Oregonians benefit by returning to work sooner, employers benefit by finding good employees sooner and the Unemployment Trust Fund benefits by having fewer demands on its resources and lower unemployment taxes.

Oregon also is field testing a process that would require all new UI recipients to come to a *WorkSource* Oregon office where they are provided skills assessments and orientations to all the resources available to them to improve their skills and secure their next jobs.

Utah

Utah recently implemented a fully automated Worker Profiling Reemployment Service (WPRS) program that has increased the number of UI claimants participating in the program five fold with minimal increase in staffing. While Worker Profiling systems have been around for years, Utah's new system automates and integrates the unemployment insurance eligibility review, orientation, assessment, and job referral processes. Claimants are profiled for likelihood of exhausting their UI benefits by using predictive variables such as earnings, education level, industry, tenure, severance status, wage replacement rate, and claim filing time lapse. Claimants with a higher likelihood of exhausting their benefits are selected and notified to participate in the program.

Washington

In an effort to help workers easily find and apply for Recovery Act-funded jobs, Washington State requires all state agencies and their contractors to list Recovery Act jobs in the state job bank. Through September 5 more than 1,300 Recovery Act jobs have been listed – about 350 of which have been filled – and that number continues to increase.

Washington State introduced a new service-delivery model to allow the state to serve more workers and ensure each customer receives the level of service he or she needs – whether its help with an unemployment claim, a job referral or more intensive services to transition to a new career. Washington calls about 25,000 claimants into local offices each month to review their job search efforts and provide re-employment services.

Washington also has invested a portion of its Recovery Act funds to develop a new statewide business services team to focus on Recovery Act jobs and to work with employers to expand the number of jobs that match local job seekers' knowledge, skills and abilities.

Conclusion

Unemployment insurance is a prime economic stabilizer. It is doing its job, but it could do better. The federal government has begun reforming the system under the Recovery Act and the Obama Administration has pledged to improve the system even more. States also will be looking to reform their programs. As states work to right their fiscal imbalances, they must be cautious not to raise unemployment taxes too soon or too high and not to cut into adequate benefits for unemployed workers. This will be a delicate balancing act that will play out in state capitols around the nation. As the economic recovery begins, job creation and reemployment services for UI claimants should be emphasized at the same time some workers retool for the future. Such actions should aid employment growth, help workers, and improve our economy for the challenges ahead.

APPENDIX

CHARTS 1 - 12

CHART 1

6.9 MILLION JOBS SHED SINCE START OF RECESSION

Source: NASWA

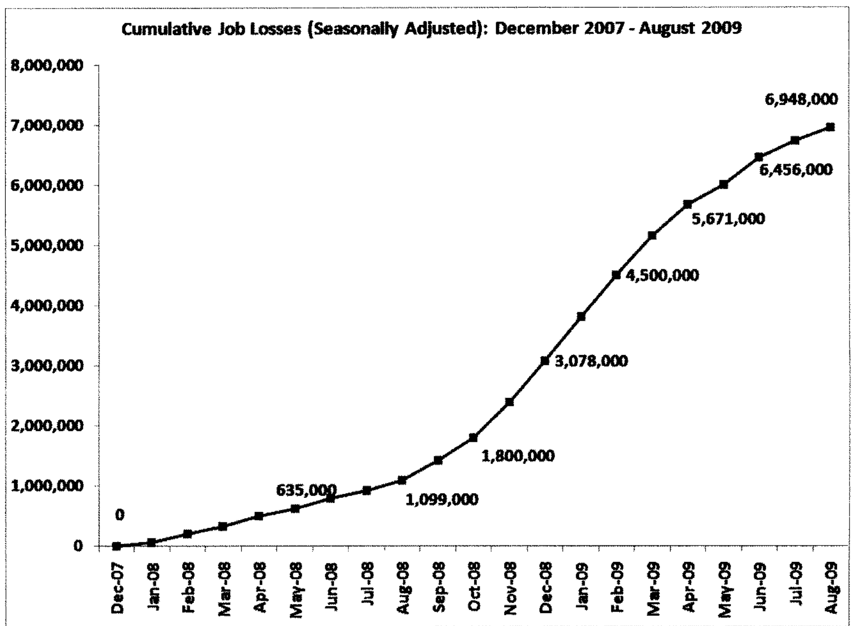


CHART 2

UNEMPLOYMENT RATE, SEASONALLY ADJUSTED, AUGUST 2007 – AUGUST 2009

Source: Bureau of Labor Statistics

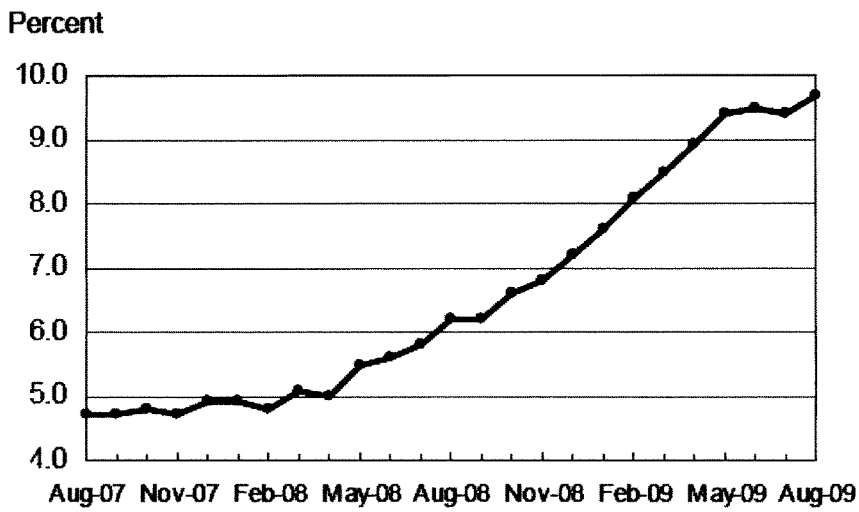


CHART 3
14.9 MILLION UNEMPLOYED PERSONS SINCE START OF THE RECESSION
Source: NASWA

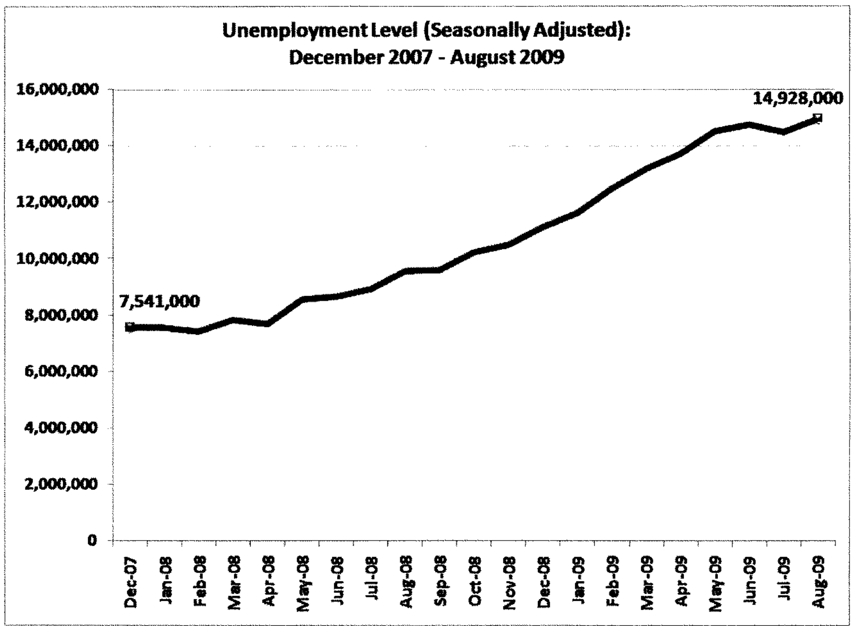


CHART 4

STATES HAVE A SEEN THREEFOLD INCREASE IN THEIR UI CLAIMS WORKLOAD

Source: NASWA

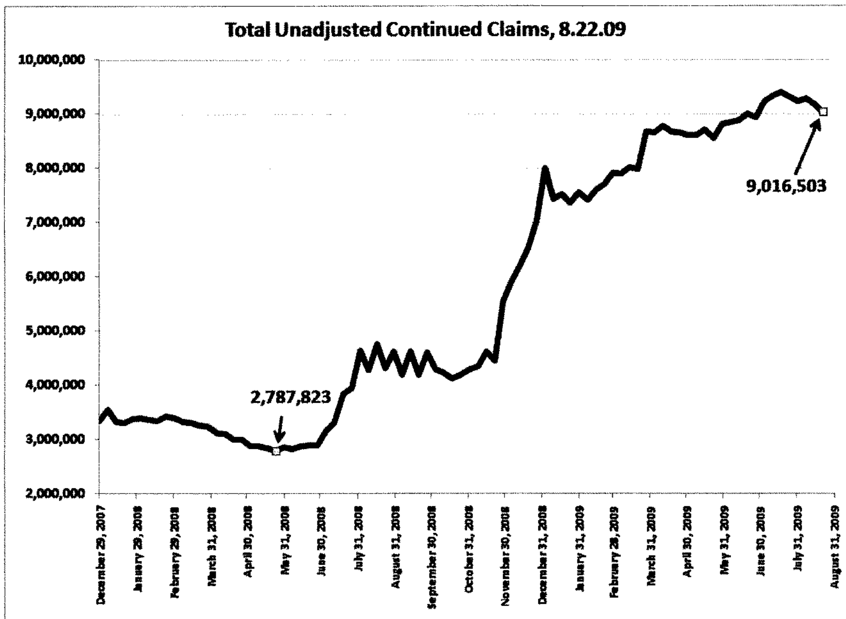


CHART 5

WORKERS ON STATE AND FEDERAL UI

Source: NASWA

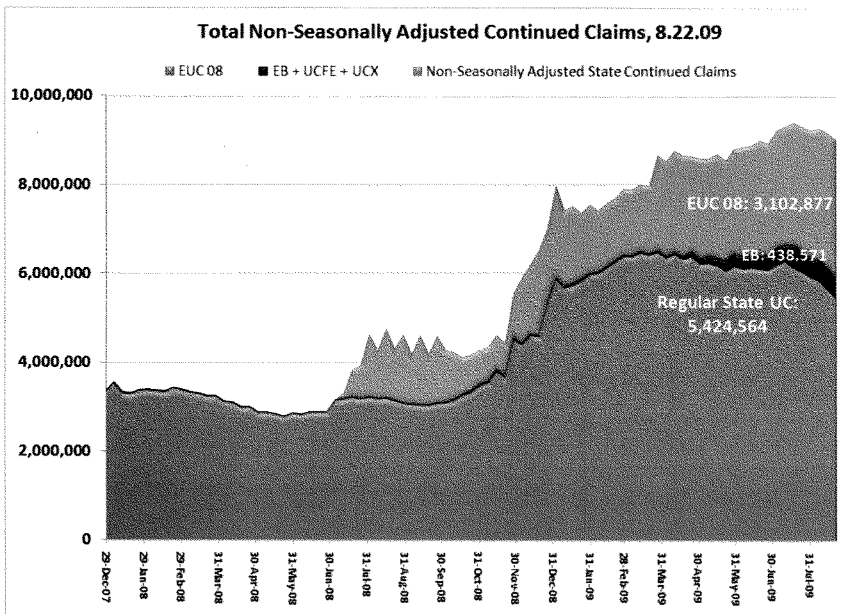


CHART 6
NUMBER OF WORKERS UNEMPLOYED FOR 27 WEEKS OR MORE HAS TRIPLED
Source: NASWA

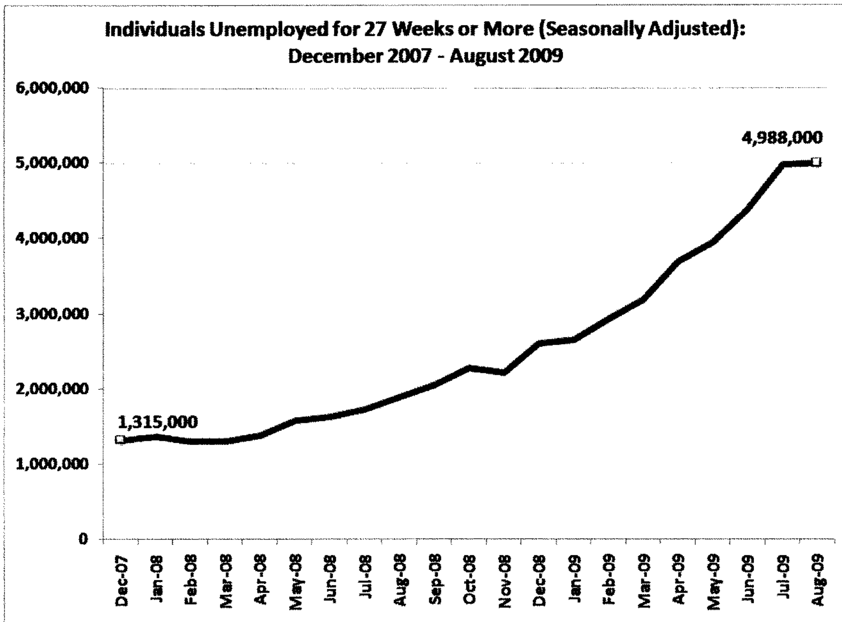


CHART 7
DURATION OF UNEMPLOYMENT REACHES RECORD LEVEL OF 25 WEEKS
Source: NASWA

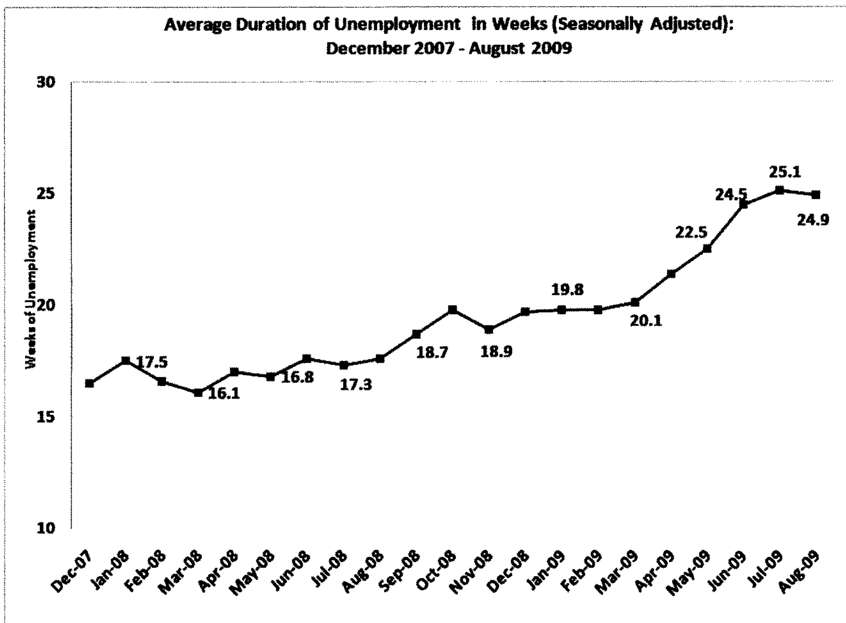


CHART 8

THREE MILLION JOB OPENINGS VS. OVER 14 MILLION UNEMPLOYED

Source: The Conference Board

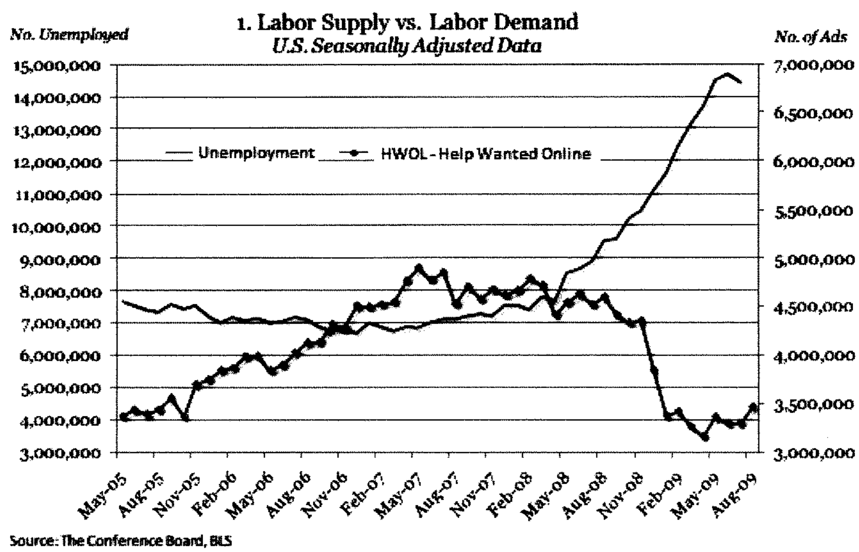


CHART 9

MORE THAN 4 MILLION HIRES OCCURRING EACH MONTH

Source: NASWA

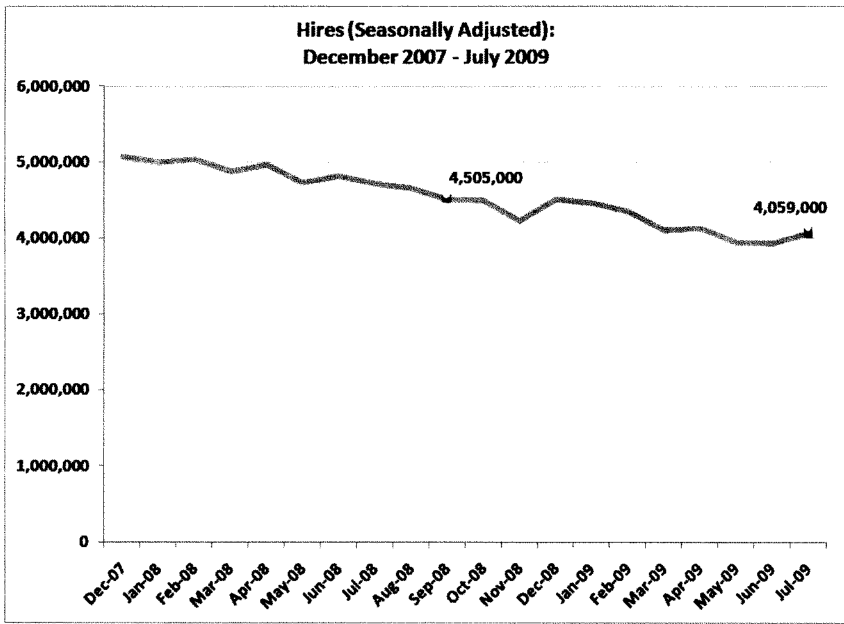


CHART 10

RECORD NUMBERS OF WORKERS BEING SERVED BY THE WORKFORCE SYSTEM

Source: NASWA

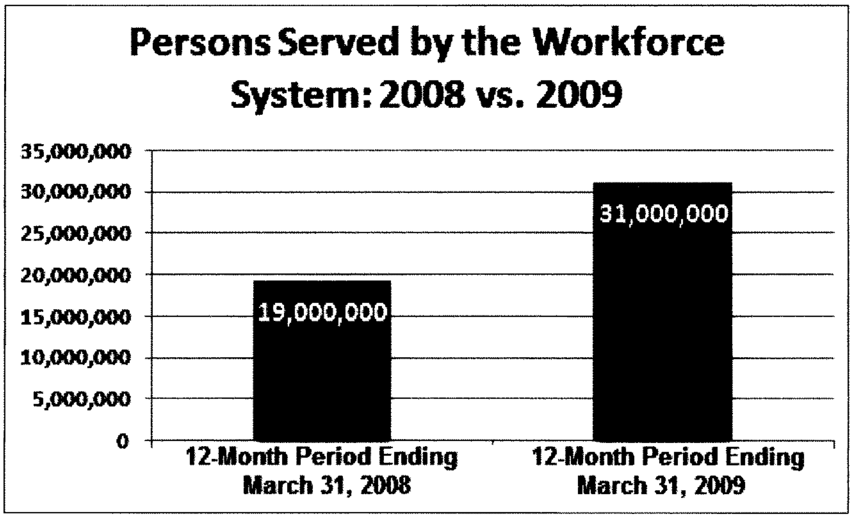


CHART 11
18.3 MILLION WORKERS SERVED UNDER THE ES PROGRAM
Source: NASWA

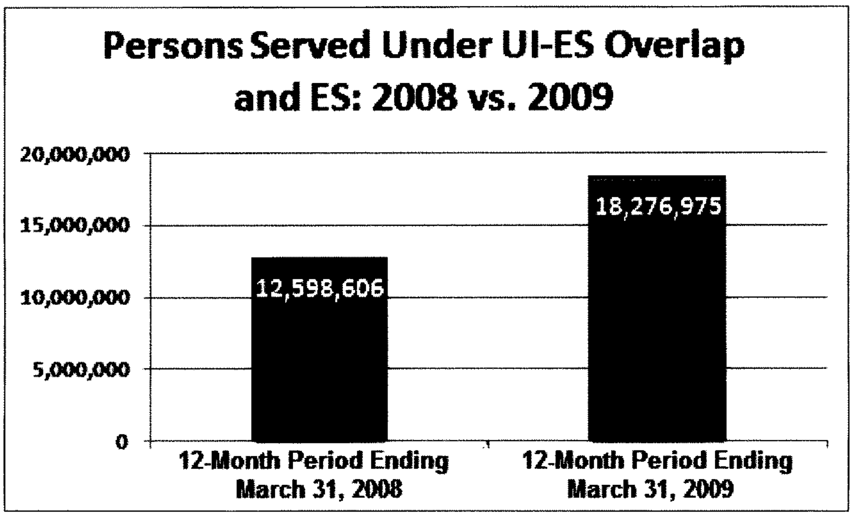
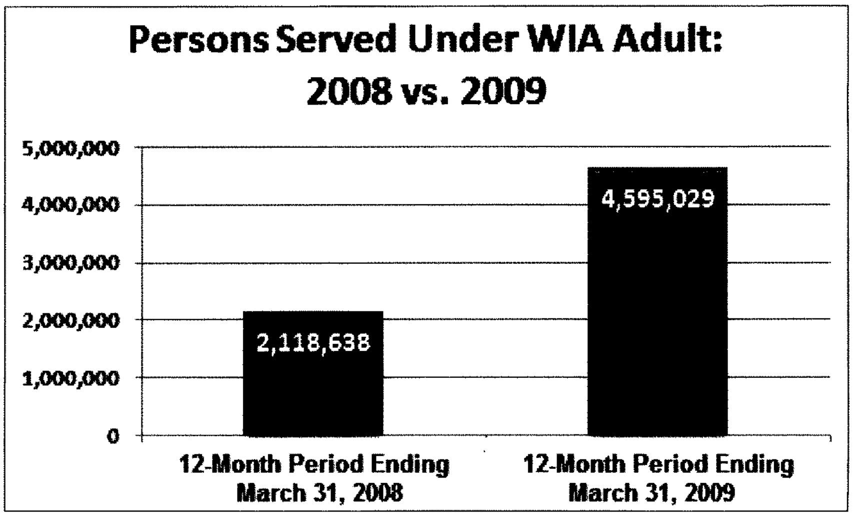


CHART 12

4.6 MILLION WORKERS SERVED UNDER THE WIA ADULT PROGRAM

Source: NASWA



New York State Department of Labor

Addendum for NASWA Testimony to the Senate Finance Committee on UI

September 15, 2009

Concerns on the Unemployment Insurance:

- New York State urges needed federal legislation to extend Emergency Unemployment Compensation (EUC) and Extended benefits (EB) beyond 2009: Roughly 1.5M people will exhaust these benefits through the end of 2009 in the U.S., (about 90,000 in NYS alone will exhaust after collecting 79 weeks of benefits—26 regular, 33 EUC and 20 weeks of EB), and those losing their jobs now will never go into extension programs at all without such legislation. Legislation needs to allow new EUC filings starting in 2010, continue 100% federal funding for EB, maintain ARRA –related provisions of the $25 Federal Additional Compensation weekly add-on and add additional weeks beyond the up to 53 weeks of EUC/EB allowed at the present time. Consideration should also be given to combining EUC and EB on a temporary basis to make the extension programs easier to administer and eliminate the present outdated work search requirement associated with EB.

  H.R. 3548, introduced in the House on September 10th by Rep. Jim McDermott, chairman of the House Ways and Means Committee's Income Security and Family Support Subcommittee, would not extend all ARRA UI –related provisions but would provide an additional 13 weeks of emergency unemployment compensation (EUC) program benefits in states with a three-month average total unemployment rate of at least 8.5 percent was introduced. Currently, 25 states and the District of Columbia would qualify for these benefits.

- The UI system is also stressed in terms of increased workloads and often insufficient levels of administration/ staffing to properly process and resolve claims. UI Modernization monies helped many states in terms of adding administrative staff and in reducing Trust Fund borrowing, but most states are likely still grappling with the need to recruit and train staff to handle the call volume, to resolve claims on a timely basis, to ensure integrity in the claims and tax processes and to make the systems changes needed to allow increased automation and customer self-service.

NYS's efforts to help secure employment for unemployed individuals:

1.) Intelligent Technology

- Enhanced Job Search Services – NYS is implementing the statewide rollout of the Burning Glass Skill Matching Technology tool. This tool uniquely uses artificial intelligence software to match customer's resumes with current job postings based on each customer's personal work history as well as model career paths.

2.) Helping unemployed find work and secure training:

- Summer Youth Employment Program (SYEP) funded by ARRA– NYS's 2009 program has exceeded expectations by serving over 24,000 youth. The SYEP provides youth, including disconnected youth, valuable work readiness skills that helps better prepare them for future career paths. The success of the summer youth program underscores the need to make permanent a "summer" youth program.

- Reemployment and Eligibility Assessment (REA) Grant – The REA initiative is designed to help individuals receiving unemployment insurance get back to work faster by providing them with individualized job search and training services. For 2008, participants found jobs approximately two weeks faster than those in a control group alleviating the strain on NYS UI Trust Fund.

- National Emergency Grant – NYS has been awarded approximately $11M in National Emergency Grant funds to serve workers dislocated as a result of the financial crisis in the metropolitan New York City area. We anticipate being able to provide services to over 5,000 workers as a result of this emergency funding with over 1,600 individuals receiving training for new careers.

- NYSDOL recently awarded $15 million of Workforce Investment Act ARRA funding to support innovative Emerging and Transitional Worker Training Programs located throughout the state to provide workers with the necessary skills and competencies to successfully obtain employment and advance their careers. Emphasis was place on green job training. Of importance to note, the demand far exceeded the funding available.

- NYSDOL recently issued a Disconnected Youth Training RFP supported by $5M of Workforce Investment Act ARRA funds, to serve disconnected youth by expanding career awareness, providing dropout prevention services and developing the foundation skills and competencies needed to motivate youth to achieve and succeed in their adult and work life. Yet again, the demand has far exceeded the funding available.

3.) Lay Off Aversion

- Emergency Response Teams (ERT) Grant – The Downstate ERT is a project to establish an early alert, rapid response and layoff aversion system in the New York City/Downstate region. Primarily managed by the NYSDOL, the project is envisioned as a joint venture to help turn around small businesses in several key industry sectors downstate. The program will work with targeted businesses, providing diagnostic assistance to determine root causes of distress and access to layoff aversion assistance to help stabilize, restructure, turn around, or attract buyers for the troubled business.

- Shared Work: The Shared Work program has proven to be an effective layoff aversion strategy operating in 17 states. For NYS, additional marketing efforts have resulted in increased program activities. During the period of October 2007 through August 2008, a total of 312 firms and 9,425 participants registered in the program. During the period of October 2008 through August 2009, 2,057 firms and 50,731 participants registered in the program, representing a comparative 659% increase of firms and 538% increase of participants. Increased federal financial support and technical assistance to the states is critical for existing states and perhaps even more important, to encourage non-participating states to provide this important service to its employers and workers.

- NYSDOL Layoff Aversion Requests for Proposals (RFPs) – The Building Skills in New York State (BUSNYS) solicitation will award approximately $5 million in Workforce Investment ARRA funds to businesses to help train incumbent workers in specific occupational skills needed by that business or industry to remain competitive and avert layoffs. Once again, the demand for these resources, far exceeds the funding available.

COMMUNICATION

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

NFIB
The Voice of Small Business.

Senate Committee on Finance

on the date of
September 15, 2009
on the subject of
Unemployment Insurance Benefits: Where Do We Go From Here?

National Federation of Independent Business
1201 F Street NW, Suite 200 • Washington, DC 20004 • 202-554-9000
www.NFIB.com

Dear Chairman Baucus and Ranking Member Grassley:

On behalf of the National Federation of Independent Business (NFIB), the nation's leading small business advocacy organization, I appreciate the opportunity to submit for the record this testimony before the Senate Finance Committee hearing on "Unemployment Insurance Benefits: Where Do We Go From Here?".

During the past year the unemployment rate has skyrocketed, and Congress took initial steps to help those who lost jobs through no fault of their own, providing them with extended benefits to allow them financial support until they find new employment. NFIB appreciates the position Congress took to temporarily extend unemployment benefits during this difficult time. Before Congress extends or expands these benefits further – as proposed in S. 1647, the Assistance for Unemployed Workers Extension Act – we urge you to consider the long-term impact another extension may have on state and federal budgets.

Small business owners are worried that taxes will need to be raised to pay for the rise in unemployment benefit claims. A recent Congressional Budget Office estimate shows that spending on unemployment compensation jumped from $43 billion in FY2008 to $116 billion in FY2009. During the 1970s and 1980s, the last period of high unemployment in the United States, both the FUTA tax base and the net FUTA tax rate were increased to cover the costs of high unemployment claims. It is not clear how existing federal UI account deficits will be addressed by Congress this time around.

Small businesses have consistently opposed any further increase in federal payroll taxes, which include unemployment taxes. Small businesses have to pay payroll taxes whether they make a profit or not, and they are an added cost to hiring and maintaining employees. Any increase in the cost of employment will likely change decision making on business owner's ability to hire more workers in the future. As the economy depends on small business owners to get us out of the recession, any added cost on job creation will hinder this recovery.

Small business owners will be hit hard when state unemployment tax rates go up in 2010. As you know, state unemployment insurance tax is experience-rated, therefore the level of the state fund account determines the applicable level of the tax rate. During the low unemployment rate years of 2003 to 2007, state UI taxes were relatively low to correspond with the amount of people that needed unemployment benefits. Many states are now experiencing high levels of unemployment and will need to increase their unemployment tax rates to levels that can sustain the supply of unemployment benefits.

For example, Hawaii recently estimated the combination of its depleted state UI trust fund, and high unemployment will require the state to increase taxes on job creators next year. According to a press release from the Hawaii Department of Labor and Industrial Relations, starting in April 2010, the state will automatically increase UI taxes from an average of $90 per employee in 2009 to "about $450 to $2040 per employee depending upon the company's unemployment experience rating." These types of tax increases on employers will make it more difficult for small business to continue their recovery, and it will be a barrier to job growth in the state of Hawaii.

NFIB is concerned that extending unemployment benefits will undermine the traditional role of the UI system. The traditional role of the UI system is to cover individuals with partial wage replacement who become unemployed through no fault of their own. The benefits are to be temporary and conditioned on the ability of the individual to actively seek employment. Extending benefits to these individuals for 13 more weeks will undoubtedly incentivize them to delay their job search plans.

As the federal UI fund continues to dry up, Congress should be reminded that during good economic times the federal UI fund often has a surplus. Instead of spending this surplus on other federal programs, as has been the tendency of Congress in the past, the UI trust fund should be preserved for periods of high unemployment. Careful management of the UI fund during good economic times would have enabled Congress to preserve these funds for today, thus reducing its need to borrow money or raise taxes.

Thank you for holding this important hearing on extending unemployment benefits, and I hope you keep in mind the views of small businesses as you take this issue up in the Committee. I look forward to working with you on this and other issues important to small business.

Sincerely,

Susan Eckerly

Susan Eckerly
Senior Vice President
Public Policy

CORE VALUES

We believe deeply that:

Small business is essential to America.

Free enterprise is essential to the start-up and expansion of small business.

Small business is threatened by government intervention.

An informed, educated, concerned, and involved public
is the ultimate safeguard for small business.

Members determine the public policy positions of the organization.

Our employees and members, collectively and individually, determine the success of
the NFIB's endeavors, and each person has a valued contribution to make.

Honesty, integrity, and respect for human and spiritual values are important
in all aspects of life, and are essential to a sustaining work environment.

NFIB

The Voice of Small Business.