

S. HRG. 111-1010

**USING UNEMPLOYMENT INSURANCE TO HELP
AMERICANS GET BACK TO WORK: CREATING
OPPORTUNITIES AND OVERCOMING CHALLENGES**

HEARING

BEFORE THE

**COMMITTEE ON FINANCE
UNITED STATES SENATE**

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

APRIL 14, 2010



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

66-995—PDF

WASHINGTON : 2010

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
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**USING UNEMPLOYMENT INSURANCE TO
HELP AMERICANS GET BACK TO WORK:
CREATING OPPORTUNITIES AND
OVERCOMING CHALLENGES**

WEDNESDAY, APRIL 14, 2010

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 Bingaman, Wyden, Stabenow, Menendez, Carper, Grassley, and Snowe.

Also present: Democratic Staff: Bill Dauster, Deputy Staff Director and General Counsel; and Diedra Henry-Spires, Professional Staff. 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 committee will come to order.

President John F. Kennedy said, "Anyone who is honestly seeking a job and can't find it deserves the attention of the U.S. Government and the people."

Today we turn our attention to the Unemployment Insurance system. We will look at whether it can do even more to help those seeking a job. Last month's job report brought us a glimpse of hope. The economy created 162,000 jobs. But 15 million Americans are still unemployed.

America has 8.2 million fewer jobs today than it did when the recession began in December of 2007, and more than 44 percent of the unemployed have been searching for a job for at least 6 months. That is 6.5 million Americans without a job for 6 months or more. On average, it is taking 31 weeks to find a new job.

For millions, the Unemployment Insurance system provides a vital safety net. More than 11 million out-of-work Americans are relying on unemployment benefits. Unemployment benefits are providing vital services. I often hear from Montanans that these checks keep them able to put food on the table. I hear that, without this help, they would not have paid their rent or mortgage.

In Montana, one of my neighbors, a woman from Great Falls in her 70s, was unemployed. She was in the process of being evicted from her apartment. She applied for, and began receiving, emer-

gency unemployment compensation benefits. These benefit payments allowed her to stay in her home and keep food on her table. Those benefits were a lifesaver for her.

Because folks are staying unemployed so long, people are exhausting available State benefits. In many cases, they have exhausted the additional tiers of Federal emergency benefits. The Department of Labor reports that, as of mid-March, almost 6 million Americans had exhausted their State benefits and were claiming Federal emergency benefits.

Our unemployment system deserves attention. It also deserves innovation. Many States are doing something creative. Seventeen States have implemented a work sharing program. Under these programs, to avoid layoffs, States allow employers to trim the hours for which they pay and then use Unemployment Insurance funds to maintain the full-time job.

My State of Montana has its own version, New York State's Shared Work program uses such a policy to avoid job loss, and as we will hear today, Washington State has an innovative program as well.

Encouraging entrepreneurship is also an option. New Jersey's Self-Employment Assistance Program assists qualified unemployed people to become self-employed and start a business in New Jersey. New Jersey's program gives participants weekly Self-Employment Assistance compensation instead of unemployment benefits. The State also gives them business start-up training and counseling.

Some States create new jobs through subsidy programs. Texas, for instance, has designed a subsidized jobs program that will target opportunities to low-wage workers who have exhausted Unemployment Insurance benefits or are at risk for exhausting. Montana also has a subsidized jobs program. We need to consider new ways to target job subsidies more effectively to those who have been laid off and exhausted all of their State-provided employment benefits.

And there is another problem that deserves attention. Right now, if you have been laid off and you take a part-time job, the current system penalizes you for that decision. We should reverse that incentive.

As people are hurting, so are State employment trust funds. States right now have borrowed more than \$40 billion from Uncle Sam, and I look forward to hearing about how the unemployment system can accommodate new ideas while improving the system's solvency.

Currently, the Federal Government provides interest-free loans to States that borrow to pay Unemployment Insurance benefits. This makes sense during a recession so that businesses do not face an increased tax burden at a time when we need them to hire.

We also need to continue the TANF Emergency Contingency Fund. The TANF Emergency Contingency Fund is a resource for States for jobs subsidy programs. This fund has been a big help in increasing the creation of subsidized jobs for low-income workers. Senators Kerry and Murray have worked very hard to continue this fund.

When I hear from unemployed people, what they really want more than the unemployment check is to be back at work, and that is the focus of today's hearing. President Kennedy said that those

seeking work need our attention. Let us see how that attention can be new, innovative, and common-sense. Let us take a focused look at how our Unemployment Insurance system can provide more than safety net support, and let us focus on how our unemployment system can best save jobs and create new jobs right away.

I would now like to welcome our witnesses. First, we will hear from Jane Oates, Assistant Secretary for Employment and Training with the U.S. Department of Labor. Welcome, Ms. Oates.

The second witness is Doug Holmes. Doug is the president of Strategic Services on Unemployment and Workers Compensation. Thank you, Doug, for being here.

The third witness is Karen Lee. Karen Lee is president of the National Association of State Workforce Agencies and Commissioner at the Washington State Employment and Security Department. Welcome, Karen.

Finally, we will hear from Dr. Mark Zandi, chief economist with Moody's Analytics. You have been here quite often, Mark. Thanks very much.

As a reminder, all written statements will be automatically included in the record. Please limit your oral presentations to about 5 minutes.

Thanks, all of you, again, for taking the time. I just urge you, do not pull any punches. Tell it like it is. Say what is on your mind. Let us make the most of this. All right.

**STATEMENT OF JANE OATES, M.Ed., ASSISTANT SECRETARY
FOR EMPLOYMENT AND TRAINING, DEPARTMENT OF
LABOR, WASHINGTON, DC**

Ms. OATES. Chairman Baucus, thank you so much for this opportunity. Good morning to you, to Senator Bingaman, to Senator Stabenow. It is wonderful to see you again. I look forward to talking with you about ways that we can improve UI.

The UI program has never been more important than it is today as a safety net for unemployed workers and their families and as an economic stabilizer during these challenging times. Not only has it provided a desperately needed lifeline as unemployed workers search for new jobs, the Congressional Budget Office indicates that UI benefits are one of the two most cost-effective ways to stimulate job growth.

The President's Council of Economic Advisors estimates that for every dollar spent on unemployment benefits, \$1.60 is returned to local communities. The President is committed to actively promoting job creation. The President's budget included \$100 billion in job creation money, including investments in small businesses, infrastructure, and green jobs.

I thank the members of this committee for their work on the Hiring Incentives to Restore Employment, or HIRE Act, which provides incentives to employers to hire and retain unemployed workers. As all of you know too well, over \$223.3 billion in UI benefits have been provided to over 30.6 million unemployed workers since the recession began in December of 2007. Unfortunately, the Nation's unemployment rate still remains persistently high at 9.7 percent.

The additional weeks of benefits made available through the Emergency Unemployment Compensation and Extended Benefits programs have been critical for millions of jobless workers and their families. The administration supports a long-term extension of these programs through the end of the year.

A top priority for this administration is to ensure the continued strength and viability of the UI program, which has been strained by the recent recession. States have done an extraordinary job in rising to the challenges of a greatly increased workload and a short timeframe to implement the EUC program.

In looking to the future of the UI program, we must not underestimate the challenges ahead. It will be important to build on its strengths and to modernize and improve those areas that have not functioned as well.

Today I would like to focus on a few key areas that are also in my written testimony in greater detail. I look forward to ongoing discussion with this committee on other potential reforms to this important program.

First, I want to mention the implementation anomaly related to the EUC program, the effect of part-time or temporary employment on benefit levels. Mr. Chairman, you mentioned this in your opening remarks. A basic premise of the EUC program is that the worker has no eligibility for State unemployment benefits.

State claims are paid with respect to a 12-month period called a benefit year. When EUC claimants reach the end of their State benefit year, States must check to see if the claimants can reestablish State eligibility. Some workers, including those who worked part-time or found temporary jobs, once again become entitled to regular State benefits because they were employed.

However, their weekly benefit amount is significantly reduced because their part-time earnings are lower than the earnings used to establish the original claim. Affected workers consider this to be unfair, and we agree that the anomaly poses an equity issue. As proposals to address this situation are considered, we strongly recommend that State implementation concerns be taken into account in addressing this matter, given the huge administrative burden States already face during the recession.

A second area concerns short-time compensation, also known as work sharing. Again, Mr. Chairman, you mentioned this. This allows an employer to reduce the weekly hours of work for all, or a group of its workers rather than temporarily laying off some workers. Clearly, this works best when labor and management are working together to create these programs.

Seventeen States currently operate short-time compensation. Workers receive a prorated portion of their weekly benefit amount based on the percent by which their work week is reduced. Instead of facing a layoff, workers not only retain their jobs but they also avoid facing a period of total unemployment that may cause their skills to grow stale. Employers are spared the need to lay off workers, and they are able to retain the skill and talent of those workers on their site.

Unfortunately, our department has been limited in its ability to promote this short-time compensation due to a need for a technical fix in the Federal law. Language accomplishing this fix is contained

in our Unemployment Compensation Integrity Act, which we hope to share with the committee shortly. By the way, Senator Reed also had that in his legislation.

We are aware that there may be interest in discussing whether incentives should be given to States to participate in this program, and we are willing and looking forward to working with you on that.

A third area concerns the Self-Employment Assistance program, which is designed to help those unemployed workers who are able to create their own jobs by starting a small business. Under SEA, States may pay a self-employment allowance equivalent to the weekly unemployment benefit to eligible jobless workers while they are establishing businesses and becoming self-employed. Eight States currently operate this program, and four more are looking into beginning operation.

A fourth area, one that is a very high priority for my agency, is reemployment strategies for UI claimants. Clearly, the best remedy for unemployment is reemployment. To that end, the Department is focusing its attention and resources on better integrating and connecting UI claimants with the services delivered through the One-Stop public workforce system.

The Recovery Act provided \$250 million in additional resources to the workforce investment system to support services to claimants to get them back into the job market as quickly as possible. These much-needed resources have been critical to building the capacity of the workforce system to serve the significantly increased number of UI claimants needing those services.

The Reemployment and Eligibility Assessment initiative has been one of ETA's core strategies to improve reemployment outcomes for UI claimants and also to reduce improper payments. In a time when most UI claims are taken remotely, REA gets claimants into One-Stop Career Centers to develop a reemployment plan and to access One-Stop services.

Thirty-four States are currently operating REA initiatives. A total of \$60 million has been appropriated for REAs in fiscal year 2010, and we anticipate that additional States will implement REA initiatives this year. These funds have strengthened the partnership between State UI programs and the One-Stops, transforming the way that States serve their UI claimants.

During the course of this recession, training as a reemployment strategy has taken on new importance. While the economy recovers, the workforce system has used the Workforce Investment Act funds to upgrade worker skills to better position workers to access jobs in demand and to provide employers with the skilled workers that they need.

The Department has worked collaboratively with States to promote innovative uses of those WIA funds, such as increasing the use of on-the-job training contracts with employers. The Department this week announced the availability of up to \$90 million in Recovery Act funds for States and their partners to create on-the-job training experiences through our National Emergency Grants funds through the Recovery Act.

We have also requested an additional \$500 million for on-the-job training to encourage employers to hire more unemployed workers.

In addition, as part of a presidential initiative, we have collaborated with the Department of Education and the States to help UI claimants gain access to Pell grants to further their education.

The CHAIRMAN. I am going to have to ask you to wrap up your testimony, Ms. Oates.

Ms. OATES. I will stop, Mr. Chairman, right there, and look forward to your questions.

The CHAIRMAN. Thank you very, very much.

Ms. OATES. Thank you.

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

The CHAIRMAN. Mr. Holmes?

**STATEMENT OF DOUG HOLMES, JD, PRESIDENT, UWC—
STRATEGIC SERVICES ON UNEMPLOYMENT AND WORKERS
COMPENSATION, AND THE NATIONAL FOUNDATION FOR UN-
EMPLOYMENT COMPENSATION AND WORKERS COMPENSA-
TION, WASHINGTON, DC**

Mr. HOLMES. Thank you, Mr. Chairman, members of the committee. My name is Doug Holmes, president of UWC. I am going to address a number of items related to the topic this morning. Thank you for the opportunity to testify.

The first step in getting unemployed workers back to work must be the creation of jobs, and the creation of jobs is impaired when payroll taxes are increased. According to the U.S. Department of Labor's projections for the President's fiscal year 2011 budget, very large amounts of borrowing from the Federal unemployment account are projected over the next few years.

The balance of outstanding loans is projected to increase from \$17.4 billion at the end of fiscal year 2009 to a peak end-of-year balance of \$93 billion in fiscal year 2013. A total of up to 40 States are projected to borrow.

UI trust fund accounts have been overwhelmed with increases in benefit payments, and employers are beginning to feel the shock of increases in State unemployment taxes. In this environment, employers are reticent to create new jobs or rehire employees because of the uncertainty and size of payroll tax burdens.

An analysis of the Bureau of Labor Statistics's Business Employment Dynamics and Job Openings and Labor Turnover Survey that was performed by Jim Shirk for The Heritage Foundation shows that the primary reason for the continuing high unemployment rate is that job creation continues to fall, while the labor force is growing, resulting in higher unemployment rates.

It is the lack of job creation more than the loss of employment that needs to be addressed at this juncture. An immediate positive step would be to provide relief from the Federal Unemployment Tax Act tax penalties that are on the horizon in 2011.

There are record numbers of long-term unemployed, many of whom are being paid EUC and Federal Additional Compensation. As of the most recent report from U.S. DOL, approximately 5.6 million are actually being paid EUC and FAC. The EUC, FAC, and the 100-percent reimbursement of State benefit payments for regular Federal extended benefits provided in the Recovery Act have served to provide needed support for unemployed workers who became unemployed due to the recession.

They have also, however, contributed to increased duration of State Unemployment Compensation payments, higher unemployment rates, and restrictions on measures to address State and Federal unemployment trust fund solvency.

A comparison of the average duration of weeks of State Unemployment Compensation from the fourth quarter of 2008 to the fourth quarter of 2009 shows a dramatic increase in average duration nationally, from 14.9 weeks of benefits to 18.8 weeks of benefits.

According to a report prepared for the Brookings Panel on Economic Activity last month, a 53-week extension, such as has been provided in the EUC, would be associated with a 4.2- to 10.6-week increase in unemployment duration among UI recipients.

The sheer size of the group of long-term unemployed requires an approach which combines public workforce services, private job search, reemployment and training services, and commitment on the part of unemployed workers to actively seek and accept work that is available in the marketplace.

The public workforce system does not have, frankly, the capacity to serve these 5.6 or more million long-term unemployed workers by itself, and frankly should not be expected to solve these problems by itself.

Employer-based programs such as customized training, on-the-job training, programs such as Georgia Works that permit individuals to work as employees or trainees in anticipation of long-term employment, are the most effective in moving unemployed workers into training which is likely to lead to sustainable employment.

One of the most effective ways to get unemployed workers back to work is for unemployed workers to take responsibility and to be motivated to take jobs that are available. In developing plans to assist unemployed workers in returning to work, the employment security system should be used in conjunction with workforce programs dedicated to provide job search, reemployment, and training services that may be funded from sources other than the insolvent unemployment trust fund accounts, but that are aligned to provide economic security and effective workforce services to the benefit of the individual employers and economic recovery.

In conclusion, the status of the slowly recovering economy dictates that, although the State and Federal trust funds are insolvent, we must do no harm to discourage job creation and economic recovery. The Federal penalties that would otherwise be imposed in the form of title XII loan interest beginning in 2011 and the FUTA offset credit penalty, which is already impacting employers, should be waived for 2 years to avoid dampening the creation of jobs and the economic recovery.

States should be properly funded to work with unemployed workers and employers to provide services designed to return unemployed claimants back to work. Training should be closely coordinated with employers in developing customized training, OJTs, internships, and other employer-based training.

The impact of the Recovery Act related to Unemployment Insurance should be evaluated to determine if modifications may be needed to promote job creation and reduce the duration of unemployment compensation. Also, the effect of the FAC on the ability

of States to address State UI trust fund solvency should be reviewed.

Thank you very much, Mr. Chairman. I look forward to any questions you may have.

The CHAIRMAN. Thank you, Mr. Holmes.

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

The CHAIRMAN. Ms. Lee, you are next.

STATEMENT OF KAREN LEE, JD, PRESIDENT, NATIONAL ASSOCIATION OF STATE WORKFORCE AGENCIES (NASWA) AND COMMISSIONER, WASHINGTON STATE EMPLOYMENT AND SECURITY DEPARTMENT, OLYMPIA, WA

Ms. LEE. Thank you, Chairman Baucus and members of the committee. My name is Karen Lee, and I am the Commissioner of the Washington State Employment Security Department. Today I am testifying in my role as president of the National Association of State Workforce Agencies, known as NASWA.

Years ago, after I graduated from the U.S. Military Academy at West Point, I had the honor of serving my country in the Army. Today it is my honor once again to serve my country and my State by helping workers and businesses weather this great recession.

Last year, some 37 million job seekers sought assistance from State workforce agencies, a 40-percent increase from the year before. Some lost jobs they held for decades, and they need help planning a new future. Some are recent military members just discharged who need help translating their military skills into civilian work. Some customers have skill gaps or other barriers: people of color, the disabled, and the poor. Still others have great skills, but their confidence is shaken after months of not finding a job on their own.

State workforce agencies are doing everything we can to help these individuals find work, but there are simply not enough jobs to go around right now. So thank goodness for the Emergency Unemployment Compensation program, EUC. These benefits have been a lifeline for millions of Americans until times get better, so it is critical that Congress act this week to extend this program through the end of the year.

Month-to-month extensions are anguishing for the unemployed, and they place unnecessary strain on State workforce agencies. Although the economic signs are improving, many businesses are still experiencing layoffs. In my State, we have been able to avoid layoffs and preserve jobs through our State Shared Work program. Shared Work allows employers to reduce the hours of their full-time employees, while the workers collect partial unemployment benefits to help replace their lost wages.

The Shared Work program in Washington saved more than 22,000 jobs last year, and we also avoided nearly \$60 million in benefit payouts. That saves taxes for participating employers, and it also helps them by retaining their skilled workers so that, when the economy recovers, these businesses are poised to respond quickly.

Currently, only 17 States have Work Share programs. It is time for Congress to clarify this law so that all States can take advan-

tage of this recession-fighting tool. As the economy recovers, we want to put unemployed people back to work as quickly as possible. That is our job. With Recovery Act funds, many workforce agencies have expanded their capacity to provide career guidance, job referrals, and training, but these funds will not be available after September.

Last year in Washington State, we conducted a rigorous assessment of the effectiveness of our reemployment services, and these results showed unemployed workers who used our job services found jobs faster and made more money than those who did not. I urge Congress to expand funding for reemployment services in the next budget.

Another program that is yielding tremendous results is the TANF Emergency Contingency Fund, and that creates subsidized jobs for low-income Americans. It is a unique approach that gives States great flexibility to design approaches that respond to their particular circumstances, and in fact this program is creating jobs at a lower cost than virtually any other measure Congress is considering.

This program needs to be extended for an additional year beyond September 30. I also urge this committee to consider a similar job development fund for those on Unemployment Insurance. Lastly, the length and depth of this recession has forced 35 State unemployment funds into insolvency. So far, these States have borrowed nearly \$40 billion to pay benefits.

So how can we avoid this crisis in the future? Coming from a State that has not had to borrow this recession, I can tell you personally that it is not easy. It takes hard, courageous decisions by Governors and State legislators, with cooperation from both business and labor.

This year, at least 10 States are working to create more stable systems for the future, but what about now? What about our current situation? With dozens of States facing tax increases to repay loans, NASWA asks this committee to extend the interest-free waiver on their loans for 2 additional years.

At the same time, please do not forget the States that have had adequate reserves going into this recession. Therefore, States should be recognized, and we should all work together, to ensure State unemployment trust funds are adequately prepared to address both good times and bad times in the future.

Thank you. I will be pleased to take any questions you may have.

The CHAIRMAN. Thank you, Ms. Lee, very much.

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

The CHAIRMAN. Dr. Zandi?

**STATEMENT OF MARK ZANDI, Ph.D., CHIEF ECONOMIST AND
CO-FOUNDER, MOODY'S ANALYTICS, WEST CHESTER, PA**

Dr. ZANDI. Thank you, Mr. Chairman. Thank you, Senator Bingaman, Senator Stabenow, and Senator Carper. It is a pleasure to be here, an honor to be here. My comments are my own personal views and not those of the Moody's Corporation.

I will make four points in my remarks. First, the recession is over. An economic recovery has begun, but a self-sustaining economic expansion still remains elusive. That the recession is over is

clear from GDP—the value of all the things that we produce—it grew 4 percent annualized in the second half of last year and is on track to grow 3 percent in the just-ended first quarter.

Job loss has stabilized. We have lost 8.4 million jobs from the peak, which was December of 2007 through February of 2010, and March was, as you pointed out, the first month of job growth and I think marks the beginning of consistent job growth going forward.

Unfortunately, the job growth is still very modest. Underlying job growth, after subtracting from the Census hiring and the effects of the weather, is probably around 50,000 per month. That is not enough. It is certainly not enough to bring down unemployment. In fact, at 50,000 per month, we will probably see unemployment continue to increase. The national employment rate is 9.7 percent. I would not be surprised if it drifted back into double digits by the end of the year.

The problem, as was pointed out earlier, is not layoffs at this point, it is lack of hiring. Businesses are not hiring. I will just give you another statistic. In a normal, well-functioning economy, we get between 5 and 5.5 million hires per month. Since the beginning of the year, we have been getting 4 million hires per month. That is a big difference.

Two big problems. One is lack of credit for small business. I think that is now pretty clear. Small businesses are key to job creation, and, if they cannot get credit, they cannot expand. The second is confidence. Many businesses went through near-death experiences not too long ago and they are not going to forget it quickly, and they need more time to get over it.

I think that policy uncertainty also has played a role. Not that these debates we are having are not very important, and we should have them—health care, energy, regulatory reform, tax policy, we need to do it—but while we are in the middle of it, it clearly does create uncertainty.

So the expansion is not in full swing. We are not off and running, the coast is not clear. That is point number one.

Point number two. I think, given point number one, policymakers need to remain aggressive in providing support to the economy, and they have done a good job. I think the Recovery Act that was passed last year was vital to ending the recession and bringing the start of recovery, and I think a number of things done recently have been very helpful, various extensions of Recovery Act provisions, the housing tax credit, and I think the recent passage of the jobs tax credit, will be helpful later this year.

I think there are a few other things that need to be done: expanded SBA lending, going back to my point about small business lending; more money for State and local government because of their budget holes; and extending the TANF Emergency Fund. As has been pointed out, I think that would be a very easy thing to do and a very effective thing to do.

Point number three. I think the UI system can be used more effectively to provide support to the economy in the very near term. Let me give you four things that I would do, many of which have already been suggested. First, extend emergency benefits through the end of the year. This month-to-month process is very debilitating to confidence, and consumer confidence is very, very low and

very fragile, and I think part of the reason is because of this uncertainty. I think it makes perfect sense to do it. It provides a very significant bang for the buck for the economy, \$1.60 for every dollar spent on UI, by my estimates. That is the GDP increase 1 year after the provision of those Unemployment Insurance benefits, so it is very straightforward, I think, to do.

Second, eliminate this disincentive for part-time work. That makes no sense to me. I think that is an easy fix and should be done.

Third, more complicated, but I think something important and probably more important if the economy starts to backslide a bit and we get more layoffs, is Work Share. That is a very good idea, and we should incent that.

Fourth, self-employment assistance. This has worked in a number of States and in different parts of the world, giving folks who have the ability to start their own companies the means to do that with Unemployment Insurance benefits.

Finally, point number four. All this costs money. It is not cheap. You add it all up, we are talking \$70, \$75, \$100 billion, depending on how high unemployment goes. It should be paid for. In an ideal world, I think we need to pay for it. Not now, not next year, but when the economy is in full swing, I think it is important to pay for it.

The deficit, the debt loads, are our next economic challenge. It would be very helpful if we could at least send a signal to global investors that we are serious about it, because that would keep interest rates low, and obviously low interest rates are key to economic expansion.

Now, having said that, the greatest near-term risk is not higher interest rates; the greatest near-term risk is that this expansion does not engage and we go back into a weak economy or back into recession, because it would be very difficult to get out of it. The economy needs immediate help. If push came to shove, I would say I would live with higher temporary deficit spending to make sure this economy is off and running, because at the end of the day that will save taxpayers money.

Thank you.

The CHAIRMAN. Thank you very much, Dr. Zandi.

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

The CHAIRMAN. Let me just take up that last question when you said the biggest near-term risk is that the economy does not engage. What are some of the criteria, or what are some of the indicators, or how do we know? I guess by that do you mean, if unemployment does not lower?

Dr. ZANDI. Yes. The key statistic—

The CHAIRMAN. By definition, we still have not engaged?

Dr. ZANDI. Yes. The key statistic is job creation. Suppose I am right and the underlying rate of job growth per month is 50,000. We need to see at least 100,000 to 125,000 per month consistently to stabilize unemployment, and then, to bring down unemployment in any substantive way, you need to get well above that. So until we are above that 100,000, 125,000 threshold, I would not conclude that we are off and running.

The CHAIRMAN. How much of the slowness in job creation and new jobs is due to increases in business productivity? That is, when times are down, the companies get more efficient, they get rid of excess cost and so forth, and so now they are not hiring as many, in part because their productivity is so much higher.

Dr. ZANDI. That is true. I think we have seen this massive decline in employment, this 8.4 million jobs, which, by the way, understates the actual job loss because we will get revisions, and the revisions will show that we have lost probably closer to 9 million jobs when it is all said and done.

That was the result of a level shift in productivity, that businesses, it appears, were able to stockpile various types of labor-saving processes and technologies that they did not take advantage of during the expansion because it is not easy to do. It is costly to lay off workers, and it is not something people want to do anyway. But in the middle of this recession, it was the only thing to do because it was a matter of survival. So, I think we have a whole level of shift-down related to this increase in productivity.

Now, going forward, I do not think businesses are going to be able to maintain that kind of productivity growth. The productivity gains we have seen in the last 3 quarters are unprecedented. You have to go back—well, we have data all the way back to World War II—and we have never seen anything like it.

So I do not think that will continue, so we will see job growth. But nonetheless, we now have this huge hole in the labor market 9 million deep, and it is going to take a long time to fill that in.

The CHAIRMAN. Could some of you talk about work sharing? You all seem to like it and think it is a good idea. It has been practiced in 17 States. Is there some indication that maybe if the Federal Government got involved that that might be a good idea, but there might be some wrinkles and some problems? Who wants to address how we get the Federal Government involved in helping States with Work Share?

Mr. HOLMES. Thank you, Mr. Chairman. One of the questions for work sharing is assuring that employers are comfortable. This is a program where employers develop a plan that meets their individual needs, and obviously there are 17 States doing it now. Some of them are similar, but there are differences from State to State.

So one of the things to be careful about, I think, from the Federal perspective is to make sure that, if there are Federal requirements, that you do not unintentionally impair what is already there and working in a number of the States. I think maybe the approach would be to do an analysis of what is working well State by State and try to make sure that employers have flexibility to use work sharing in the best way without having unnecessary strings attached to it.

The CHAIRMAN. Well, I hope that the current legislation, that is, the temporary extension, passes. We probably will extend benefits until the end of May. But in the meantime, I am wondering if this is a good opportunity to start to change the legislation to adopt some of these suggestions that you have. We do have an opportunity here, about a month and a half to work on it. So, some thoughts some of you might have as to how to do that and how to best take advantage of this 1½-month opportunity.

Ms. LEE. Senator Baucus, what States need is just clarity in the law so that the enabling legislation is very clear that it will not run afoul of any regulations. I know that the Department of Labor has language that they have submitted. It has also been submitted in bills earlier this session. So that is the biggest thing that we need for States, and many States are moving forward regardless.

The CHAIRMAN. What are your concerns about clarity? What might we do that makes things too unclear?

Ms. LEE. There is an unofficial Solicitor General opinion that is dated, that is interpreted as murky by some States, so States that have not implemented Shared Work programs are uncomfortable.

The CHAIRMAN. It is a U.S. Solicitor opinion?

Ms. LEE. Yes. Yes.

The CHAIRMAN. Has somebody suggested how that could be made less murky?

Ms. OATES. Yes, Senator. We have submitted language to the committee, Senator. Basically, it is just stating clearly that this is an allowable activity.

The CHAIRMAN. All right. Good.

Ms. OATES. And we will continue to work with you so it is acceptable to the members, but a number of States have approached the Department and asked about, could they do this without fear of repercussions, and many of them very timidly say they do not want to face an audit.

The CHAIRMAN. All right. My time is up.

Senator Bingaman, you are next.

Senator BINGAMAN. Thank you very much.

What occurs to me is that, wherever there is a Solicitor's opinion, there can be a follow-on Solicitor's opinion that clarifies the situation. I do not know if that is being considered in the Department of Labor. Rather than waiting till Congress can agree to make a change in law, it might be that you could solve this problem without Congress acting. I do not know.

Ms. OATES. Our Solicitor is currently looking at it. As you know, Senator, our Solicitor did not get confirmed—she has only been on board for about 2 months. But it is something she started looking at right away. It is pretty clear that it is murky and needs a legislative fix at this point, but we are continuing to look at how we could change the Solicitor's opinion.

Senator BINGAMAN. Let me ask Mark Zandi. You suggested that we could provide incentives for Work Share. I assume one of the reasons why all 50 States have not gone ahead, one may be the murkiness of the Solicitor's opinion, but there might also be something related to costs involved. Is that what you are talking about? Do you think the Federal Government has an appropriate role in underwriting some of the cost of moving to Work Share?

Dr. ZANDI. Yes. More specifically, I think it would be useful if the Federal Government provided grants to States that do not have Work Share to set up those programs. That is an administrative cost, and obviously these agencies are in no position to do anything like this in this kind of environment, and will not be for a long time to come.

I think that would be something that would be straightforward to do, and then provide technical assistance too, because you have

to establish a process. Employers have to work with employees. This is something that we do not have a lot of experience with, but we do have experience in some States and in Europe that seems to have worked quite well during this recession.

Just to give you some support for that idea: in Germany, for example, their GDP, peak to trough, fell 6 percentage points; ours fell 4 percentage points. Their unemployment rate rose to 8 percent; our unemployment rose to 10. Now, there are other reasons for it, but one of the key reasons is they have a very effective Work Share program. So I think it has been quite useful, and I would advocate grants to States that are interested in implementing the program.

Senator BINGAMAN. Ms. Oates, is this something the administration is supporting, the idea of Congress appropriating funds for grants? Is this something that is in Senator Reed's bill as well?

Ms. OATES. Senator, the administration is really looking at all creative options. This is certainly one of them. As Dr. Zandi said, we looked at the model used in Germany, also in the U.K., where it has been a great help for keeping employment at a much higher rate. So, while I am not quite sure the administration is adopting or is backing any specific provisions, all of us are very interested in working with this committee to figure out something that would work well for the States here.

Senator BINGAMAN. All right.

On the other issue that you flagged, and Senator Baucus talked about it as well, this disincentive that is in the law to part-time work, what is needed there? Does Congress have to pass something there? If so, what? Have you proposed language for us there?

Ms. OATES. We have language which we will give you, I hope, later this month. It is in clearance now. But this is a heartbreaking case, Senator. When people bring this to our attention, they do not realize that by taking temporary work or by taking a part-time job, they lose the additional weeks on their initial claim and go to a much lower benefit, in most cases. Bad situation.

We are trying to improve that now so that they get better outcomes when they take on that temporary work or that part-time job. But, yes. We will have language specifically for you and work with you to make sure that is workable with the committee. We think this is just heartbreaking when we meet with people who fall into this hole.

Senator BINGAMAN. And is that also in Senator Reed's bill?

Ms. OATES. Yes, I believe it—no. My staff is saying to me, no, it is not in Senator Reed's bill.

Senator BINGAMAN. All right. That would be useful, to see what your proposed language is there.

Let me just be real clear. Dr. Zandi, I think you were very clear about your recommendation that Congress pay for the extension of these unemployment benefits and the various other things we have talked about here, the TANF Emergency Fund, but that we not do so now. So you are suggesting that the current proposals to extend unemployment benefits need to be approved without an offset? That is your proposal at this point, until we get further out of this recession?

Dr. ZANDI. Yes. It would be counterproductive to try to offset it in this year or the next because it would offset the benefit of the UI and the other benefits. Yes.

Senator BINGAMAN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Next, Senator Stabenow.

Senator STABENOW. Thank you very much, Mr. Chairman. Thank you for holding this hearing, and to each of you, for being here. This is a critical piece of what we need to be focused on in terms of what is happening to families, to businesses, and our economy as things have shifted.

We can talk about a variety of reasons for that, but the reality is, we are laser-focused, first, on creating jobs and supporting the private sector to be creating jobs, but we have many people who are caught, as we all know, in the middle of this. We cannot forget Americans who have worked all their lives and played by the rules and need to know right now that they have the support they need for their family. So this is a very important discussion for us.

I would, first, just comment that, as you have talked about, one of the consequences of this very serious recession is the fact that more than 30 States have borrowed approximately \$40 billion from the Federal Government for State unemployment trust funds to continue being able to pay for unemployment benefits for out-of-work families.

Twelve States have currently borrowed more than \$1 billion. We have actually borrowed in Michigan—because we have had double-digit unemployment since November of 2008—about \$3.8 billion. So, rather than specifically talk more about that, I do want to say for the record, I think that going forward, we have to make sure that this does not result in the States having to shift to raising taxes on employers at this time, or other things that would be counterproductive to creating jobs. So I think our role federally is critically important moving forward on all of this.

I would ask Dr. Zandi: we have talked about work sharing, which is very important in conversation and the questions so far, but could you talk a little bit more—you highlighted the positive impact of subsidized employment through the TANF Emergency Fund. Could you talk a little bit more about why you think that is important to continue?

Dr. ZANDI. Sure. The TANF Emergency Fund is important for two reasons. First, it has been helpful in subsidizing job creation, particularly for youth, summer youth, which I think will be key this summer. The teenage unemployment rate is 26 percent, and we are going to have a lot of difficulty in a lot of communities across the country with such high unemployment. I think this would be very effective.

In fact, if it is not extended soon—it does expire September 30—I do not think any of the funds will be used for summer youth programs later this year. It has also been helpful in creating jobs, transitional jobs, getting people back into work.

The second big thing that it has been used for, obviously, is to help with caseloads. The rise in welfare caseloads has been quite significant, and the money has been helpful in families, getting them support. That has also been very key to providing not only

help to the families, but also to the broader economy, because that money is spent. So, two key ways it has been helping. I think, as has been pointed out, it has been quite effective in those States that have adopted it.

Senator STABENOW. That is what I understand.

Dr. ZANDI. Yes.

Senator STABENOW. I would like to use my remaining time to talk about job training, because again, in the broadest sense, this is about creating jobs, it is about job training, and it is about not losing sight of the people right now who need help, who have lost their jobs through no fault of their own. But when we look at our job training programs, we have put a lot of emphasis on this in Michigan, actually.

Since 2007, we have put over 120,000 people into training for in-demand jobs through what we call our No Worker Left Behind bill. We are having a much higher rate than nationally in terms of participation. About 59 percent of our adults and dislocated participants are participating in job training versus 13 percent nationally. We show much higher job training efforts.

My concern is, though, how can we better align the unemployment system with upscaling our workforce, supporting job training efforts? How can we incentivize workers to get new skills and credentials through the unemployment system? Can we better align this with our investments in community colleges that we have been making through our other efforts, the Workforce Investment Act job training program unemployment system? I mean, how can we better align this so it is simpler, more straightforward, easily accessed? How can employers play a larger role? What should we be doing? Assistant Secretary?

Ms. OATES. Senator, clearly, the most important thing is that, before we put anybody in training, we make sure that we are talking to employers so that we are just not looking at national numbers, but we are looking at local labor market needs, and that employers have a say in what the training entails, not only getting them at the tail end.

I think some of your community colleges in Michigan—you know, Jim Jacobs does a great job of this at Macomb Community College, but he does not start a program unless he has a business advisory group telling him what should be in the curriculum, not only coming at the end for a job fair. That is something that we need to promote more, both in our workforce investment system through our States and through our local service delivery people.

Then we have to talk more openly about the people who went into the training and got a good job, not only saying they got placed in a job, but talking about how much they are making. I think out-of-work workers are very concerned that they are not going to get replacement wages. Nowhere is that more true than in Michigan, where people were making good wages and they are afraid they are going to go to training and make considerably less.

Senator STABENOW. Right.

Ms. OATES. So it is a compromise, in my mind, of making sure that we have employers working with us from the beginning, which is new, and also looking at better giving report cards about the out-

comes of our job training programs in terms of the wages people attain by putting that time into training.

Senator STABENOW. I know my time is up. But Mr. Holmes, did you want to just—please.

Mr. HOLMES. I certainly agree with the statement. I think one of the keys is that we continue to focus on employment and look at performance in terms of employment as a key. Oftentimes you will have training programs that may provide some additional skill, but unless that is connected immediately and effectively to employment, then it loses its effect as far as getting individuals into work.

Senator STABENOW. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. You bet. Thank you very much, Senator Stabenow.

Next, we have Senator Snowe, if you want to. Are you ready?

Senator SNOWE. Yes.

The CHAIRMAN. All right.

Senator SNOWE. Unless—

The CHAIRMAN. No, no. Go ahead, if you are ready.

Senator SNOWE. Yes. Thank you. Thank you, Mr. Chairman.

Dr. Zandi, I know you mentioned in your remarks the importance of small business lending to easing and mitigating this job crisis that Americans are confronting. How important is it? Because as one of the issues that I have been arguing persistently—and I know I had conversations with the chairman in this respect about moving along small business legislation to expand and to extend what we did last year in terms of lending, especially through the SBA, increasing the loan guarantees, reducing lenders' fees, so on and so forth—it actually did have an impact.

I mean, there was a correlation between doing that and the amount of lending that occurred nationwide, certainly in my State. Unfortunately, those provisions expired at the end of the last year, and I have been trying to get a small business job recovery package. That should be an ultimate priority. I thought we would have done this in January. I know the Majority Leader has indicated we will consider it.

But I am concerned that we are really lagging in our ability to get this done and turn this economy around with respect to job creation. I mean, whatever happens on Wall Street, it has not affected Main Street, frankly. That is what I am seeing. That is what I know Maine is experiencing, America is experiencing, so it really is crucial to re-ignite the recovery among small businesses.

And so, how critical is this? Because here it is, April. We have yet to do it. So, we are slow-walking this legislation. Everything seems to be overtaking the priority of doing it. But how critical is it to creating jobs?

Dr. ZANDI. I think it is vital. Here is a statistic that I think is telling: businesses or establishments that employ fewer than 100 employees, let us call those small businesses, account for about half of all the jobs in our economy. In the last economic expansion, they accounted for two-thirds of the net job creation. So, if small business is not on track, then the job machine is going to have a difficult time getting going here. So, it is vital.

I think there are many reasons why small businesses are not hiring. I think one of the key reasons, and one that you can have an influence over—and you mentioned it—is the provision of credit. I think credit is a problem. Just take the National Federation of Independent Business survey that came out a day ago. Confidence is about as low as it has ever been. The question with regard to credit is clearly indicating that businesses are starved for credit.

I think the SBA is the best, most direct, and most effective way of getting credit to these businesses quickly, and I would do several things. I think you have already proposed them or are considering them. Increasing the maximum size of an SBA loan; I think that is pretty clearly what should be done. Increasing the loan guarantee temporarily. It is 90 percent, I believe, under the current Recovery Act.

Senator SNOWE. Right.

Dr. ZANDI. At least extend that. I would even consider raising it to 95 percent, getting closer to a direct lending program, but only temporarily. And third, I would raise the interest rate cap. Right now, I think it is 275 basis points over prime. Prime is 3 percentage points. A $5\frac{3}{4}$ -percentage point interest rate is not enough to compensate for risk, so I would allow that to be temporarily higher.

I think if we did those three things—and there are a lot of other good ideas, but just quickly—I think you would make a big difference.

Senator SNOWE. Well, I appreciate that, and I hope the message is heard throughout Congress, because it should be at the forefront of our agenda. I am concerned about it because, as I know as I return home and I talk to people, it is clear they are not hiring. I mean, small businesses.

The lack of certainty and predictability about what is transpiring in Congress is not giving them the confidence to take on that added cost in hiring an individual. They would like to, but certainly are hesitant to do so right now. I know that it has had a cause and effect when we saw our lending increase by 86 percent nationally, and in my State over 270 percent last year, just by increasing the loan guarantee rates. But it is central to what we do.

I am concerned about this persistent joblessness. I mean, the fact is, I know we have made slight improvements on a monthly basis, but nevertheless, in looking and talking to people who are unemployed in my State, it clearly is an emergency, without question, and we need to do something to turn that around.

Ms. Oates, I wanted to ask you, to that point, I visited some career centers in Maine, and what I discovered were an enormous number of hurdles in implementing these programs. As you know, the Workforce Investment Act has not been reauthorized in, I think, almost 13 years. There are 15 different programs. As a result, people who are participating in the career center work programs are really facing, I think, the obstacles that are presented by the myriad requirements of these different programs.

Is there a way of consolidating these training programs? For example, they should remain invisible to the recipients and the beneficiaries of these programs, and they are not. I mean, they are being affected by the multiplicity of requirements across the board

in all these training programs. Could we not use, for example, the Trade Adjustment Assistance program as a model for all?

People are unemployed. I mean, that is the bottom line. Regardless of why they are unemployed, they are unemployed. Should we not synchronize all of these programs to make it easier for implementation for those who are on the front lines in administering these programs, as well as those who are receiving the benefits of these programs?

Ms. OATES. Absolutely, Senator. The HELP Committee in the Senate is actually working on reauthorization of the Workforce Investment Act. It has never been reauthorized. It was written in a full employment economy. We have learned so much over the years of implementation about how to simplify. We are currently trying to do what we can through regulation and through guidance to the field to look at things like eligibility and common definitions, but we are in need of a reauthorization desperately so that we can break down some of the silos.

I mean, one of the clearest examples in Maine, and everywhere else, is people who need adult basic education or English language and need some job training, and have to now go through two different paths to do that. Some States have come up with really creative ways—your State particularly has done a very creative piece of work on entrepreneurship.

But we should not leave it up to the States to figure this out, and we should not require our front-line people to be masters of acronyms. So I believe that the Senate is going to reauthorize this year. I hope the House picks that up. It has always been a bipartisan bill from when I was with Senator Kennedy. We did it with Senator Jeffords and with Senator Gregg. So I really hope that this will be bipartisan and that we will get it through very quickly. As you saw firsthand, the system really needs innovative approaches in this legislation.

Senator SNOWE. Well, I appreciate that, and I look forward to working with you in that regard, because it truly is something that has to be turned around immediately. Thank you.

Ms. OATES. Absolutely. Thank you.

The CHAIRMAN. Senator Grassley, you are next.

Senator GRASSLEY. I should explain to the witnesses and my colleagues that I was absent for the first 45 minutes because I was questioning the Attorney General down the hall. I am glad to be here. I would put my statement in the record and go immediately to questions.

[The prepared statement of Senator Grassley appears in the appendix.]

Senator GRASSLEY. I would start with you, Ms. Oates. Your testimony mentions several job training, job sharing, and job subsidy programs. I would like to put these programs into context. As I understand it, today there are about 15 million unemployed workers. Roughly 6 million, or about 40 percent, currently receive unemployment benefits. CBO projects that we will spend over \$130 billion this year on combined Federal/State unemployment benefits.

I will give you two questions. Can you tell us how many of the unemployed participated in these programs and, in conjunction with that, how much do we currently spend on those programs?

Then, lastly, how much would it cost to expand these programs to cover all of the unemployed?

Ms. OATES. Well, Senator, to give you an idea, last year our system worked with 30 million people in job search and activities like résumé building. You know in this committee more than I do that we spent \$140 billion in Unemployment Insurance last year.

We are trying to get better, through our reemployment efforts, to directly connect someone, while they are collecting unemployment benefits, with training, and that training could be the training that Senator Stabenow mentioned that Michigan is doing, which is longer-term, or it could be shorter-term to get somebody an industry-recognized credential so that they can compete for a job in their local area.

I think that our goal is to touch 100 percent of the people who are dislocated, full-time or part-time, and get them the appropriate level of service that they need. I think we realize that some of these people just need assisted job search. They need to know what jobs are in their area. Other people really need a much heavier-dose response. So, it is difficult for me to give you a dollar figure in terms of what it would cost to touch every one of them in the appropriate way.

I think, first, we need to prove to you and to the rest of Congress that we are using every single dollar you give us in the most effective way possible, and we are trying to do that through, as I mentioned to Senator Snowe, looking at ways that we can work with our sister agencies, like HHS, Children and Families, to make sure that we are working with TANF recipients as well, as they look for jobs, so that they do not have to duplicate services.

I hope that we can continue to work with you and come up with a number, because I think it is hard for you to respond to your constituents unless you know what the number is to make sure that we can serve all the people.

Senator GRASSLEY. Ms. Lee, your testimony mentioned that TANF emergency funds were created under the stimulus bill to subsidize jobs for low-income individuals. You cite one study that suggests the program has created 160,000 jobs. What evidence do we have that these are actually net new permanent jobs rather than temporary jobs that might end when the subsidies run out, or jobs that would have existed anyway, or jobs that were redistributed from somewhere else in the economy?

Ms. LEE. I think, Senator Grassley, the States that have been most aggressive in this area, Texas, Florida, and Mississippi, for example, as they set these programs up, these are States that did not have subsidized employment prior, and the requirements that they put on the employers that participate often are the creation of temporary jobs. I think that one of the tests will be, did this lead to a permanent position?

But in many cases, the results have been very, very strong. It would be something that the States would be very appreciative if they could report back to you in September when this program, right now, is scheduled to end, although we are hoping it is going to be extended.

Senator GRASSLEY. All right. And again, for you, Ms. Lee, on reemployment services. Several studies cited in your testimony sug-

gest reemployment services reduced the duration of unemployment from less than 1 week to nearly 8 weeks. Assuming an average weekly unemployment benefit of \$300, these studies seem to imply potential savings ranging from less than \$300 to nearly \$2,400 per unemployed worker. That seems to be such a variation. So I am looking for, what is the net effect? What is the average cost of these reemployment services per worker, and can they be expanded to cover a much greater share of the unemployed on a timely and cost-effective basis?

Ms. LEE. Senator Grassley, I will answer your question in two parts. First of all, for the math portions, I would like to submit some testimony to you later to give you the accurate answer. The second thing that I would like to say with respect to reemployment services is that they are very similar to the intensive services that Ms. Oates mentioned, but we are dealing with claimants.

When you bring a claimant in and you help them move down a path to employment, whether it is a career ladder, whether it is labor market information, job search assistance, helping them remove a barrier, helping them with subsidized employment, physically reaching out and working with that customer really moves them along the path because State workforce agencies are effective in helping get claimants back to work. We have three studies cited in the testimony. We have additional State studies that we have done in Washington and other States as well.

So the key is to be able to work with the claimant so they do not give up, so that they can effectively job search, so that they do not look for their same income in an occupation that is not in demand in the community. All of that advice helps that person make a better decision, and that is the reason why those services are so effective.

Senator GRASSLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Grassley.

Next is Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Secretary Oates, good to see you again, having had you serve in New Jersey as well before.

Ms. OATES. Nice to see you, Senator.

Senator MENENDEZ. We appreciate your service.

Mr. Holmes, let me ask you. I read your testimony. You argued that increased Unemployment Insurance disincentivizes people to work and increases the length of unemployment. On page 8 of your testimony, you claimed to cite evidence of this by arguing that since UI payments have been extended, long-term unemployment has increased by about 4 weeks over the past year.

Now, I looked at it, and I do not know how that is reconciled with the fact that there were millions of job losses through late 2008 and into 2009. Do you not think that that is the primary factor that led to the increase in long-term unemployment?

Mr. HOLMES. Well, I think what I said in my testimony is that those payments contributed to the increase in duration. There are a couple of studies that have been done on that—actually, quite a few. CBO recognizes that effect.

Also, there was a study from Pennsylvania that I cited in my testimony that laid out, in quite a bit of detail, what happened in the

1980s. As there were increases in the number of weeks that were provided, the duration of unemployment increased. If you look at that data, it shows that immediately after the exhaustion of whatever the latest extension was, that the reemployment spiked up and the authors there speculated or found——

Senator MENENDEZ. I do not know about the 1980s, but let me ask you about a simple figure, 5:1. There are five people looking for every one job that is presently available. Now, when I was a child and we used to do musical chairs at school, and you would go around the table and the music stopped, there was somebody left out. Well, this is worse. There is only one chair with five people trying to sit in it.

It just seems to me that to suggest that Unemployment Insurance is the reason for that—you say on page 7 of your testimony that one of the most effective ways to get unemployed workers back to work is for them to take responsibility personally and to be motivated to take jobs that are available.

Mr. HOLMES. Right.

Senator MENENDEZ. Well, there are a lot of people looking for jobs that are available. The problem is, there are not enough jobs available. So I am not sure. This is, I think, a textbook example of correlation not equalling causation. The causation here is that we had a massive drop-off in jobs and people working hard to try to find one. I know plenty of people in New Jersey who were telling me they are looking for a job. They are not looking for a handout, they are looking for a job. So I just want, for the record, to have a different view than yours.

I appreciate your view, but I just do not understand, when you have 15 million people looking for 3 million jobs, how that in fact, at the end of the day, is the reason why people want to be lazy and hang onto unemployment benefits that are a fraction of what they made.

Dr. Zandi, Ms. Lee, or both, the Recovery Act allowed States to borrow from the Federal trust fund without having to pay interest through 2010. My own State is one of 34 States that have outstanding loans. But with unemployment hovering around 10 percent, it seems to me that everything that we are doing, like the HIRE Act and other initiatives, to try to get the private sector, particularly small- and mid-sized businesses, to hire people, that is counter-intuitive to now have, in essence, taxes rise on them at this time. Is either forgiving or postponing the whole question of the interest-free loans something that we should be considering at this particular time?

Ms. LEE. Senator Menendez, the States have asked to have their interest payments waived for 2 more years, and States think that is very important. I also think that, with respect to returning unemployment funds to solvency, that there are several options that we have employed before that we have done in the 1980s where States, if they can put a plan together, can get some flexibility with their FUTA taxes. Those are some options that we have used in the past to help States get back to solvency.

I think what is important is that we do have a solvent system, and that for States that have remained solvent, that there is also something for them so that there are incentives for States to have

a sufficient amount of reserves in their trust fund so that we can pay out benefits when benefits are needed.

Dr. ZANDI. I think it would be very therapeutic to extend that grace period for at least 2 years. I mean, if you look at the fiscal situation of the States, nearly every State across the country has a very severe problem, and it would be very counterproductive to put this on them because it will take it out in the form of program cuts, job cuts, or tax increases. So I think it makes perfect sense to extend this out. I believe there are also penalties that need to be addressed as well.

I would not forgive this until you straightened it out. I think that would be inappropriate. But I think I would certainly extend out the grace period. By my calculation, the fiscal year 2011 budget for States is adding up to a \$50-, \$60-billion budget hole at this point, so it is very serious.

Senator MENENDEZ. Finally, Mr. Chairman, if I may.

The CHAIRMAN. Sure.

Senator MENENDEZ. Secretary Oates, in New Jersey our previous Governor created a program that incentivizes businesses to hire long-term unemployed workers who have exhausted their benefits. In looking at ways that are different than just having unemployment, do you think that that type of effort has merits, something to be considered at a more national level?

Is there a better alternative than simply expanding the number of tiers indefinitely or leaving families out in the cold? It seems to me that if we can get people to work and create productivity by incentivizing the private sector to do so, and in doing so that company grows and then maybe they have the ability to employ not only that individual on a more permanent basis but others, it would be looking at UI in a different way.

Ms. OATES. Senator, I think we need to look at innovative ways to deal with the Unemployment Insurance issue. I agree with everything that everyone has said about the importance of solvency and extending the interest-free period, but I have stolen the idea from New Jersey and just this week put \$90 million of our own AARA National Emergency Grant money on the street for on-the-job training, looking specifically at getting long-term unemployed into subsidized employment for up to 6 months, because I believe in business people.

I know if they see a really high-quality worker, they are going to hire them. They are going to make sure that they make room for that worker because they are not going to want them to go to their competitor. So, I think what New Jersey did is exactly the right thing.

I think getting people into real jobs, learning skills while they are getting paid, just like an apprenticeship model, a learn-while-you-earn model, letting the employer see firsthand your quality, is going to make that employer much more confident. We have heard from the experts that employers are nervous, they are anxious. They almost lost their business in this recession, so they are going to be very slow to step up to the plate and hire new people.

We need to use whatever resources we have. I do not think \$90 million nationwide is going to do a lot, but I hope that I can come back to this committee and to the HELP Committee and say that

on-the-job training, just like incumbent worker training, are things that we should really be looking at to get people paid while they are temporarily unemployed and on the track back to full-term employment.

Senator MENENDEZ. We will look forward to seeing the success.

Ms. OATES. Yes. Thank you, Senator.

Senator MENENDEZ. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Menendez.

Next, Senator Wyden?

Senator WYDEN. Thank you, Mr. Chairman. Thank you for holding this hearing. I think this is an important subject, because we essentially have had a change in America in the very nature of unemployment. I mean, it used to be temporary, and many workers would return to their previous jobs. It is simply not that way anymore. Workers tend to be unemployed for longer periods of time. It is unlikely that they are going to return to their previous employer, and unfortunately sometimes not even their same occupation.

The Bureau of Labor Statistics shows that, when unemployed workers regain employment, a clear majority of those workers earn less in the new jobs than they did in the old jobs. The data also shows that up to one-third of the workers take jobs that pay less than 80 percent of what their old jobs paid.

Now, in recent years, policymakers have begun to look at a variety of areas. I think I want to ask you, Ms. Oates, about two of them. One of them is wage insurance, and the other is a program that you will probably recall that Senator Kennedy and I authored, the self-employment program.

Now, policymakers look at wage insurance as a kind of public insurance approach that can temporarily replace a portion of a worker's lost wages when they become reemployed. Obviously wage insurance would help workers with new jobs who are receiving on-the-job skills training.

With self-employment, we have seen a number of States—a small number of States—essentially use it as a tool so that folks who are unemployed can take their benefits and in effect use them as a trampoline to set up small businesses. For example, in my State there has been great interest in the high-tech sector; for example, somebody who is laid off in high-tech using their unemployment dollars to go set up a web-based business, say the next eBay or something of that nature.

Give me your thoughts, Ms. Oates, on how it would be possible to expand the government's efforts in the two areas I mentioned: wage insurance and the self-employment effort.

Ms. OATES. Well, let me start with the self-employment effort, Senator, if I may, because we actually contracted with an evaluation firm to look at Project GATE—Growing America Through Entrepreneurship. The results were amazing. The people who went through the self-employment training, literally about a third of them started their own business, which is pretty good, but 100 percent of them became employed.

So that training to start your own business gave them more confidence, more skills, and made them more competitive in a very shrinking job market to get a good job. I think that we are working

right now with the Small Business Administration to look at the opportunities that we have to do their self-employment program through our One-Stops, to get information out, so they are not limited just with their regional offices, but could expand it into our regional offices as well, hitting over 3,000 locations across the Nation.

I have to say that your State has been so hard hit and is very good at putting in for Trade Adjustment Assistance, probably because you are on this committee and you give them good information. We have seen a lot of people coming through the trade program looking at that self-employment option, too.

So we have not done the data collection to see if any of them have started an eBay, or that type of business. But they have gotten employment out of it, even if they are just employing themselves. But many more of them are employing other people, creating jobs in that community.

On wage insurance, I am going to do a public confession here. With all the work I have done in the past 9 months, I have not really looked into that very much, so, if you would allow me to get back to you on that, I would appreciate it, Senator.

Senator WYDEN. I will certainly do that. My question is essentially to get your thoughts on the concept of wage insurance.

Ms. OATES. Oh, I think it is a great concept.

Senator WYDEN. So you think it is one that would have some potential because it, in effect, could be assistance that workers would see as an addition to the Unemployment Insurance, not replacing it. But again, what I thought was important is that we look to new models.

I mean, I sense, particularly in this country, the people who are being laid off have extraordinary capacity in many instances to innovate, and this gives them a chance to set up their own businesses. Wage insurance is perhaps a different tool for a different group of individuals, but something that I think also has a lot of potential. So, could you take a look at the wage insurance effort?

Ms. OATES. Absolutely.

Senator WYDEN. How long would it take for you all to try to put together something resembling a concept paper of how that might work?

Ms. OATES. I think we could give you something with ease by the end of the month. It might not be complete, but it would be at least a paper that we could start some discussion with you.

Senator WYDEN. Great.

Mr. Chairman, I would like to work with you, in particular, in both of those areas. The wage insurance concept, you have done, I think, very, very helpful work on the TAA program. This would be sort of another dimension to it. Then self-employment, I think also would have a chance to put more folks back to work. So, I would like to work with you on it.

The CHAIRMAN. Good. Thank you, Senator.

I would like to ask you, Ms. Lee, because of your unique role as an employment services administrator, and also as a veteran, what could we do better to serve our veterans? I just got back yesterday from Pakistan and Afghanistan. Whenever I go over, I am just very, very impressed with our young men and women. They are just aces.

On the health side, I have worked hard to address PTSD. The program started first in Montana, actually, and we enacted it now with the military, for media to do personal interviews and 30-day and 60-day interviews. I think it is an extra year after that. But with respect to jobs, just what ideas do you have? How could we better serve our veterans who are out of work, who come home and need work and so forth?

Ms. LEE. Certainly, Senator. First of all, I would like to say I think that most States intend to serve veterans well and we do our best, but there are certain things that we could always do better. For skilled veterans, I will start with those.

So let us take a veteran that was skilled in health care, nursing. Depending on your branch of service and depending on the veteran's home State, they may have to seek additional training and take testing before they are licensed to have a job in that particular field in that particular State.

Some States have waivers, some States are very good at giving credit for military service, but it is perceived by the veteran to be a barrier. And also, if there is a backup in the training class, then that veteran has a lag before they can go to work as a paramedic, although they were a paramedic in the navy.

So the first thing that I think that we can do better is that, for all of the service branches that offer schools that are professional with skills that are easily transferrable to the civilian sector, that those institutions are accredited in every State across the country and that the licensing and certification process in that State is as transparent as possible. If the State has waiting lists, maybe there are ways to give the veterans priority. So that is the first thing that I would say that we could do for veterans who have a skill that is easily transferrable.

For veterans who come from combat service, that is not quite as easily transferrable unless that veteran wants to go into law enforcement or something like that. Then what we really have to do is, first, have the staff to counsel the veterans. That is so important. It takes consistent counseling. Many States outreach to veterans while they are deployed, but they are distracted. Most veterans receive a transitionary out-briefing when they transition out of their base. In Washington, it is Joint Base Lewis-McChord. They are distracted. They want to go home.

Many veterans are allowed to have Unemployment Insurance benefits and others, but it takes a while for the veteran to transition mentally and physically before they are ready to begin their job search. We should be counseling those veterans consistently about their training benefits that they are offered so that they take full advantage of them while they are in place, and we have to be consistent with that.

If the veteran chooses to work, what we have to do is then to be able to help them translate that military language into something that civilians can understand and employ, because veterans, as we know, are very, very good workers.

The last thing, if there is some type of family stress, because veterans have families, we should be looking out for the dependents of those veterans, and we should give the same level of services to the wives and children of veterans as the veterans themselves. I

think that many States are not able to do that. So, those are three easy areas, I think, where both the State and the Nation could help serve our veterans.

The CHAIRMAN. But are you aware of efforts to remedy each of those three?

Ms. LEE. Senator Baucus, every State has many efforts. It almost gets back to the one-stop concept that is so important. Volunteer organizations. States have State funds. Washington had a State fund at one point. But veterans may not live in a metropolitan area. They may live in a rural area.

All those organizations have to know what all the services are, so they really need to be tied in strongly to the one-stop system so that we can refer the veteran appropriately. Of course, you have to have funding for these things as well. Then the veteran has to be healthy, mentally and physically, so that they can be a good employee.

The CHAIRMAN. But are you aware of any efforts, whether DoD, the Pentagon, or any of the branches, that are trying to coordinate one-stops to more effectively and efficiently address what you are suggesting?

Ms. LEE. Yes. There are many, many efforts, some everyone agrees with, some that they do not. But at the State level, at the service level, there could always be more opportunity to have cross knowledge and to be comfortable with the services that are provided.

Ms. OATES. Senator, if I may.

The CHAIRMAN. Yes.

Ms. OATES. We have a Division of Veterans at the Department of Labor, and they operate what is called TAP, which is the Transition Assistance Program, which is what Karen was referring to. That is at a military base, before you go back to your community. Right now, 80 percent of the people who exit participate in that program. We are in negotiations with the Department of Defense to make sure 100 percent of exiting veterans will at least have that level of service.

In addition, one specific population of veterans is particularly tough to serve. Those are those young veterans who are coming out who may be 20 to 24, and many of them are not able to go home for a variety of reasons. So this year we will begin a pilot program where we place up to 300 of those in three different Job Corps facilities to test out what happens if we take those young veterans, many of them not the high-skilled folks, or they would have stayed in the military, and link them with career training and some additional education in a setting that is residential, but in a cohort of like military folks so that we are going to be able to tell you how quickly we can get them employed. That young veteran population that is coming out, kids who went right out of high school, did not make it. They got there and realized they did not want to do a career-length stint. They are coming back. They have very few employment options.

Tragically, we are finding that many of them end up as the homeless veterans whom we try to serve in our programs. So, we would be delighted to come back to you first to tell you about what the interest was in that program for just those young veterans be-

cause, as you know for Job Corps, you cannot be older than 24 when you enroll in Job Corps, so it would be a very narrow piece of the veterans, but we think it is going to be really promising, because we think that they will accelerate through that program and hopefully get placed in jobs.

The CHAIRMAN. I appreciate that.

I would like to hear your follow-up, frankly. You see it. You talk to the kids over there, and some of them are not sure what they are going to do when they get back.

Ms. OATES. That is right.

The CHAIRMAN. That is very true.

Ms. Oates, could you tell me a little bit about Georgia Works and how you make it work from an effective employment training perspective, as well as with respect to the Fair Labor Standards Act, and just how do you deal with that?

Ms. OATES. Senator, we operate in collaboration with the States, so the States have a list of eligible activities for folks who are on unemployment. As long as they meet our standards under UI, we do not sanction them, but we accept them. That is how Georgia Works came into being. The Commissioner there, Michael Thurmond, was a big advocate of this program. He is confident that this program meets the guidelines that our wage and hour folks have put out.

We just want to make sure that when workers are in those kinds of programs they are not being abused by the employer, that they are not displacing positions that should be held by full-time workers. Commissioner Thurmond says that they have had amazing results, but that is not a program that either we oversee or we fund; Georgia operates this program purely through State dollars. They do not use any Federal dollars.

But we have put out our guidance to make sure that other States that have looked at this as a promising practice, if they choose to implement something like it, implement a legal program that is giving workers an opportunity, a training opportunity, and not abusing them and not holding back other workers from getting full-time employment.

So it is a difficult program for us to endorse. We do not fund it. We do not collect data on it. But obviously we trust the Commissioner there to do things, and we have not heard anything from participants to say that they have been abused. We are watching it as other States develop it because it seems like an area where there could be some abuse unless the Commissioner were being as alert about it as it seems that the Commissioner in Georgia has been.

The CHAIRMAN. Well, I thank you all very much for participating. Before we do leave, though, does anybody have a little thought in the back of his or her mind that is kind of nagging back there that you kind of want to address? Or to state the same point differently, has anybody said anything so outrageous it needs to be addressed? [Laughter.]

Ms. OATES. That is so nice, Senator. We just want to continue working with you. We know we have a lot of work to do on this.

The CHAIRMAN. Oh, we do. We do.

Ms. OATES. So we look forward to working with you.

The CHAIRMAN. Yes, we do. And we with you.
So, thank you very, very much. I appreciate it.
The hearing is adjourned.
[Whereupon, at 11:33 a.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Hearing Statement of Senator Max Baucus (D-Mont.) Regarding Using Unemployment Insurance to Help Americans Get Back to Work

President John F. Kennedy said: "Anyone who is honestly seeking a job and can't find it deserves the attention of the United States government and the people."

Today, we turn our attention to the unemployment insurance system. We look at whether it can do even more to help those seeking a job.

Last month's job report brought us a glimpse of hope. The economy created 162,000 jobs.

But 15 million Americans are still unemployed. America has 8.2 million fewer jobs today than it did when the recession began in December 2007.

And more than 44 percent of the unemployed have been searching for a job for at least six months. That's six and one-half million Americans without a job for six months or more. On average, it's taking 31 weeks to find a new job.

For millions, the unemployment insurance system provides a vital safety net. More than 11 million out-of-work Americans are relying on unemployment benefits.

Unemployment benefits are providing vital services. I regularly hear from Montanans that these checks keep them able to put food on the table. I hear that without this help they could not have paid their rent or mortgage.

In Montana, one of my neighbors, a woman from Great Falls in her 70's, was unemployed. She was in the process of being evicted from her apartment. She applied for and began receiving emergency unemployment compensation benefits.

These benefit payments allowed her to stay in her home and keep food on her table. Those benefits were a lifesaver for her.

Because folks are staying unemployed so long, people are exhausting available state benefits. In many cases, they have exhausted the additional tiers of Federal emergency benefits. The Department of Labor reports that as of mid-March, almost six million Americans had exhausted their state benefits and were claiming Federal emergency benefits.

Our unemployment system deserves attention. And it also deserves innovation.

Many states are doing some creative things. Seventeen states have implemented a work-sharing program. Under these programs, to avoid layoffs, states allow employers to trim the hours for which they pay, and then use Unemployment Insurance funds to maintain the full-time job.

My state of Montana has its own version. New York State's "Shared Work Program" uses such a policy to avoid job loss. And as we will hear today, Washington State has an innovative program as well.

Encouraging entrepreneurship is also an option. New Jersey's "Self-Employment Assistance Program" assists qualified unemployed people to become self-employed and start a business in New Jersey.

New Jersey's program gives participants weekly "Self-Employment Assistance" compensation instead of unemployment benefits. And the state also gives them business start-up training and counseling.

And some states create new jobs through subsidy programs. Texas, for instance, has designed a subsidized jobs program that will target opportunities to low-wage workers who have exhausted Unemployment Insurance benefits or are at risk for exhausting. Montana also has a subsidized jobs program.

We need to consider new ways to target job subsidies more effectively to those who have been laid off and exhausted all of their state-provided unemployment benefits.

And there's another problem that deserves our attention: Right now, if you have been laid off and you take a part-time job, the current system penalizes you for that decision. We should reverse that incentive.

And as people are hurting, so are state unemployment trust funds. States right now have borrowed more than \$40 billion from the Federal Government. I look forward to hearing about how the unemployment system can accommodate new ideas while improving the system's solvency.

Currently, the Federal Government provides interest-free loans to states that borrow to pay Unemployment Insurance benefits. This makes sense during a recession, so that businesses do not face an increased tax burden at a time when we need them to hire.

We also need to continue the TANF Emergency Contingency Fund. The TANF Emergency Contingency Fund is a resource to states for job subsidy programs. This Fund has been a big help in increasing the creation of subsidized jobs for low-income workers. Senators Kerry and Murray have worked hard to continue this fund.

When I hear from unemployed people, what they really want — more than the unemployment check — is to be back at work. That's the focus of this hearing today.

President Kennedy said that those seeking work need our "attention." Let's see how that attention can be new, innovative, and common-sense. Let's take a focused look at how our unemployment insurance system can provide more than safety net support. And let's focus on how our unemployment system can best save jobs and create new jobs, right away.

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**Statement of Michael B. Enzi
Senate Committee on Finance
April 14, 2010**

**Using Unemployment Insurance to Help Americans Get Back to Work:
Creating Opportunities and Overcoming Challenges**

Good morning and thank you, Mr. Chairman, for holding this hearing on using unemployment insurance to help Americans find work. Getting Americans back to work is certainly the directive I hear from the people of Wyoming. As I stated at this Committee's last hearing on unemployment in September, every action we take should be targeted at creating a job or connecting people with jobs.

Unfortunately, since that hearing seven months ago and the extension of increased unemployment benefits that followed it, the national unemployment rate remains the same as it was then – 9.7 percent - and even rose to 10 percent for a full quarter. Now, after 22 months of extended and increased benefits, 35 states have exhausted their trust funds and are borrowing from federal coffers which are borrowed themselves. The federal government is currently borrowing around 40 cents out of every dollar it spends.

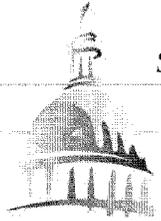
But unlike our federal debt, the state's unemployment trust fund debt must be repaid, with interest in some circumstances. The system for raising funds for repayment is to increase unemployment taxes. Higher payroll taxes decrease job creation. So we are stuck in a dangerous circle.

At last September's hearing on unemployment insurance and on many other occasions, I have promoted the Workforce Investment Act as powerful tool to help Americans learn new skills and find better employment. I am very pleased to see some of today's witnesses advocating for WIA as well. I have worked in four Congresses to update the Workforce Investment Act, which has not been reauthorized since its enactment over 12 years ago. I'm working now with Senators Harkin, Murray, and Isakson, and building on the bill that passed the full Senate in the 109th Congress. We should reauthorize WIA this Congress to ensure workers have access to the education and skill training they need to be successful, and employers have the skilled workforce they need to be competitive. Coincidentally, a reauthorized WIA program costs about \$4 billion a year, which is the equivalent of about 2 weeks of the EUC program we are likely to extend.

I'm also interested to see what consensus can be formed on some of the other proposals today's witnesses are making, including the promotion of geographic relocation for greater employment opportunities. I look forward to reviewing the testimony today's witnesses.

Thank you Mr. Chairman.

*United States Senate
Committee on Finance*



*Sen. Chuck Grassley · Iowa
Ranking Member*

Statement of Senator Chuck Grassley
Hearing Before the Senate Committee on Finance
Using Unemployment Insurance to Help Americans Get Back to Work: Creating Opportunities
and Overcoming Challenges
April 14, 2010

We've lost nearly 8.5 million private sector jobs during the current recession. Despite a massive \$800 billion stimulus bill, a financial bailout, an auto bailout, cash-for-clunkers, and a so-called jobs bill, private sector job creation remains virtually non-existent. While the most recent monthly jobs data suggest a turn-around may be at hand, it's still too early to know for sure whether we are entirely out of the woods.

The economic outlook remains tenuous, with rising foreclosures and continued weakness in the housing market. The prospect of higher interest rates weighs heavily on future home values and bank balance sheets. When jobs are hard to find, unemployed workers seek assistance from the unemployment insurance system.

Unfortunately, this recession has hit the unemployment system hard. We've seen a dramatic deterioration in the solvency of the system. An analysis of state trust fund ratios since 1972 suggest the system is in its worst financial condition in decades. As of last week, the states had borrowed nearly \$40 billion from the federal government to cover their shortfalls. The latest projections suggest federal loans will exceed \$90 billion within a few years. That's almost three times the annual amount of unemployment taxes collected by the states prior to the current recession.

The growing insolvency of the unemployment system represents a major economic and fiscal challenge. We face the prospect of a dramatic increase in payroll taxes at a time when businesses are still struggling to meet their payroll and retain their workforce. Under current law, repaying federal loans and rebuilding state trust fund balances, before the next inevitable recession, would require an unprecedented and untenable payroll tax increase.

The challenge we face today is how to restore solvency to the unemployment system without undermining private sector job creation. Today's hearing is the first step in that process.

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

Before the
United States Senate
Committee on Finance

Hearing on Using Unemployment Insurance to Help
Americans Get Back to Work: Creating Opportunities and
Overcoming Challenges

April 14, 2010

Chairman Baucus, Ranking Member Grassley, and members of the Committee on Finance, thank you for the opportunity to testify this morning.

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, and unemployment tax professionals. 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 timely in addressing the question of how we can overcome the challenges presented by the current economy and create opportunities for unemployed workers to get back to work.

In addressing how to help Americans get back to work and methods to create opportunities and overcoming challenges we should address the current status of unemployment insurance, its relationship to other programs and the initiatives that have been shown to be effective in times of constrained resources.

ASSURE THAT THE CURRENT ECONOMIC RECOVERY CONTINUES WITH THE CREATION OF ADDITIONAL JOBS FOR UNEMPLOYED WORKERS

The first step in getting unemployed workers back to work must be the creation of jobs. It is no exaggeration to say that the UI employer financed system is in the worst financial condition since its inception. As of April 6, 2010, 35 states and jurisdictions had outstanding Title XII debts totaling more than \$39.5 billion. The federal unemployment account from which states borrow to pay unemployment compensation is itself in deficit and relying on transfers from the federal general revenue fund to cover loan obligations.

The federal extended unemployment compensation account from which regular federal extended benefits are funded is in deficit along with the federal unemployment account. Since general revenue is being advanced to these accounts, each additional dollar spent at this point through the federal unemployment account or extended unemployment compensation account is subject to interest to be paid back to the general revenue fund and because the general revenue is operating in a deficit position, each additional dollar being spent for unemployment compensation adds to the federal deficit.

According to the US Department of Labor's projections for the President's FY 2011 budget, very large amounts of borrowing from the Federal Unemployment Account are projected over the next few years. The balance of outstanding loans is projected to increase from \$17.4 billion at the end of FY 2009 to a peak end-of-year balance of \$93 billion in FY 2013. A total of up to 40 states are projected to borrow.

Individual state unemployment benefit accounts are in even worse shape. Many states have unpaid balances in their Title XII loans that are greater than a year of state unemployment benefit payments and state UI tax revenue has been overwhelmed with increases in benefit payments. For example, Indiana has a current unpaid Title XII balance of over \$1.8 billion with annual state UI tax revenue of only \$499 million and annual benefit payments of \$1.8 billion. California has a current unpaid Title XII balance of over \$8.5 billion with annual tax revenue of only \$4.7 billion and annual benefit payments of \$10.9 billion.

It is not possible for these and a number of other states to increase state unemployment taxes enough within the period before the next recession to reach current USDOL solvency suggestions without unprecedented tax increases or slashes to benefit payments.

There are a number of reasons that we find ourselves in such a weakened position. Virtually no economists, state officials, legislators, or employers in 2007 anticipated the size and depth of the Great Recession of 2008 and 2009. Most states were prepared to meet the benefit payment requirements of a 2001 size recession but not one with historical proportions. Even states such as Hawaii, which enjoyed a relatively solvent state unemployment trust fund balance that met USDOL guidance in 2007 found itself faced with a projected deficit, a tremendous automatic state unemployment tax increase for 2010, and very little time to enact state legislation to adjust to the changing circumstances. Without emergency legislation in early 2010 Hawaii employers would have faced an increase in average per employee state unemployment taxes from \$90 per employee per year to \$1,070 per year. Even with emergency legislation the per employee tax increase on average is in the \$600 per employee range, and will continue to increase dramatically to cover the size of benefit payment obligations.

States, unlike Hawaii, that did not have automatic adjustments in state unemployment tax bases found themselves in a sea of red ink with very little time to make adjustments in unemployment tax rates or benefit payout. In some states weekly benefit amounts had been indexed to increase while the state unemployment tax base remained static. Also, initiatives to drastically cut benefits or increase payroll taxes during a recession were viewed as counter-productive to assuring the economic security of unemployed workers or the economic recovery needed to produce additional jobs.

In 2010, according to a survey conducted by the National Association of State Workforce Agencies (NASWA), state unemployment tax wage bases are scheduled to increase in 24 states, contribution rate schedules are expected to increase in 28 states, and 10 states are already at their highest rate schedules. Employers will see a further rise in rates due to the increase in unemployment experience in individual employer accounts. The additional imposition of increases in the FUTA tax through the reduction in the FUTA offset credit penalty will increase payroll tax burden and discourage new hiring. Employers in Michigan have already had the FUTA penalty imposed for 2009, and based on current and projected Title XII loan balances, Michigan, South Carolina and Indiana will be subject to penalties for 2010 and twenty five states will be subject to penalties for

2011. These FUTA penalties add to the already dramatic state unemployment tax increases in 2010 and expected for 2011 and 2012.

Clearly, given the size of the state and federal debt and already skyrocketing state UI taxes a coordinated effort on the part of the states and the federal government is essential to solve the deficit problem. The solution should include relief from federal penalties to assure that the economic recovery continues, and a longer term strategy to manage the tremendous state and federal UI system debt while improving the UI program's ability to assist individuals in returning to work.

Provide short term relief from Federal Unemployment Tax Penalties

In this environment in which UI payroll taxes are increasing and will continue to increase for a number of years, employers are reticent to create new jobs or rehire employees because of the uncertainty and size of payroll tax burdens. An immediate positive step would be to provide relief from FUTA tax penalties on employers in states that are borrowing to pay unemployment compensation.

The waiver of interest on loans to states to pay unemployment compensation should be extended through 2012—helping states and employers in the short term to plan to restore solvency and to implement solvency legislation within a reasonable timeframe.

Consistent with the continued waiver of Title XII interest, FUTA offset credit penalties should be waived through 2011. The FUTA offset credit penalty and Title XII interest both were designed as sanctions to penalize states that chose not to maintain solvent state UI trust funds. In normal periods these sanctions may be justified, however, in the current instance the size and duration of the recession could not have been anticipated and the period of time to respond was too short. The fact that 35 states and jurisdictions are already borrowing and up to 40 are expected to borrow is testament to the fact that the primary cause of state UI trust fund insolvency was due to factors outside the control of individual states or employers in a particular state.

IMPLEMENT INITIATIVES AND PROVIDE SERVICES THAT ARE MOST EFFECTIVE IN ASSISTING UNEMPLOYED WORKERS IN RETURNING TO WORK

At the same time that the UI system is in the worse shape financially, there are record numbers of long term unemployed, many of whom are being paid emergency unemployment compensation and federal additional compensation. As of the most recent report from US DOL 5,593,484 were paid EUC and FAC.

An analysis of the makeup of these 5.6 million long term unemployed workers and those who are likely to exhaust unemployment compensation who are currently claiming state unemployment compensation is needed to determine the most effective ways to assist them in returning to work. Once there is a determination of the size of the population to be served and an evaluation of resources needed, assessments of workers should form the

basis on which to determine whether the individuals are in need of job search, training, and/or support services.

In some cases there will be barriers that must be addressed (e.g. illiteracy, drug abuse, child care needs). Partnering with public and private workforce agencies may be needed.

It should be noted that the publicly funded workforce system in place today is limited in its capacity, and an effective plan must combine public as well as privately funded services, and an emphasis on personal responsibility and incentives to create jobs.

Job Search and Reemployment Services

Workers with skills in demand can immediately benefit from job search and reemployment services. The Reemployment & Eligibility Assessment Program (REA) is provided with a small amount of earmarked funding to promote rapid reemployment of UI claimants, reduce overpayments and cost-savings for the UI trust fund. The REA combines in-person interviews similar to eligibility reviews with assessment of individual claimant skills and abilities, labor market information and the development of a work-search plan. The REA program has been demonstrated in many states to reduce the duration of unemployment for individuals participating in the program and should be expanded as a priority.

Rapid Response Services should be marketed more aggressively with the business community to assure that employers are aware of the services available. Employers are typically not aware of the services or have made independent outplacement and reemployment service plans for displaced workers. With appropriate consultation, private/public partnerships can serve to reduce the number of workers who become unemployed, reduce the duration of unemployment, and reduce the cost to employers.

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.

UWC supports the continued use of reemployment rate measures as established under GPRA. The goal of employment security should be employment, and performance measures should reflect this priority.

Targeted Training

The assessment and referral to training and placement of unemployed workers can be effective in enabling workers to find new work. 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 are

the most effective in moving unemployed workers into training which is likely to lead to employment.

The July 2009 report of the President's Council of Economic Advisers "Preparing the Workers of Today for the Jobs of Tomorrow", identified the elements of more effective post-high school education and training and reported that "The curricula for occupationally-oriented programs should be developed in close collaboration with local employers and other workforce stakeholders".

The report went on to note that one of the great virtues of many "sub-baccalaureate" training providers was their alliance with employers in providing customized training.

Active participation by employers is the key to successful training as employers ultimately make the hiring decisions. Targeted initiatives in the areas of health services, manufacturing, and other growth areas make sense in the current economy as a way to meet employer needs and to reduce unemployment.

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, and are best served in partnership with private and public programs. Trade Adjustment Assistance and the Workforce Investment Act provide a broader array of support services, assessment, testing, skills training, and referral services.

The leveraging of public funding across program areas as well as private funding driven by employers who are making hiring decisions can be extremely effective in developing the training and support needed to return unemployed workers to work.

Geographic Relocation

Deep recessions historically result in significant geographic shifts in the availability of employment as labor markets adjust to the emerging areas of growth and employment levels in some labor markets do not return to previous levels.

Individuals remaining unemployed for extended periods should be encouraged to consider relocating to other geographic locations in which employment that matches their skills and abilities is available.

Work Sharing and Short-time Compensation

Work Sharing/Short-Time Compensation (STC) is conceptually appealing as it seeks to find a way during difficult economic times to preserve employment for workers and assure that employers have the skilled staff that they need to rebound as demand for goods or services increases.

Short-time compensation (STC) is authorized in 18 states. The program enables workers whose hours are reduced under a formal work sharing plan to be compensated with STC, which is paid as a regular unemployment benefit that has been pro-rated for the partial work reduction. Some employers have reported that the program enabled them to retain workers that otherwise would have been laid off and allowed them to increase hours of work as the economy improved – the result being fewer laid-off employees, lesser cost to the employer, and more efficient use of skilled labor. Some employers have reported that they were surprised by increasing state unemployment tax rates after using STC, while for others the impact on state unemployment taxes appeared to be negligible.

The details of work-sharing plans in a number of states and in legislation recently proposed raise a number of questions that should be addressed in any new federal authorization or amendments to existing authorization for the program, including:

How is it paid for?

If part of the proposal is to provide a new source of federal funding for STC payments, how much additional funding would be needed and what offsets would be provided for it?

If new authorization and funding would be on a temporary basis how would state programs be funded after temporary federal funding was discontinued?

Should state unemployment trust fund dollars dedicated to the payment of unemployment compensation to those who are unemployed be used to pay individuals who are not unemployed under state law?

What would be the bottom line impact on other employers contributing to the state unemployment trust fund? Would the net impact be to deplete the unemployment trust fund? Would other base period employers who are not participating in the plan be charged a portion of the benefits?

What other federal restrictions, if any, would be imposed on employers seeking to participate in an authorized work-sharing plan? Prohibitions against participating in labor disputes? Restrictions against the plan impacting fringe benefits, retirement plans or health plans?

The existing 18 state laws have addressed a number of these issues in slightly different ways. To the extent that new federal requirements were included in new or amended

authorization language, some number of states and employers in those states would likely be required to modify their plans in ways that are not acceptable to them.

Although we recognize that some employers and workers may benefit from work-sharing and STC plans, there are many details that need to be addressed.

Improve Accuracy and Integrity

One of the most effective ways to get unemployed workers back to work is for them to take responsibility personally and to be motivated to take jobs that are available. A number of administrative and policy measures have been shown to be effective in motivating unemployed workers to take responsibility.

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.

Paying attention to whether individuals are actively seeking work and making accurate benefit determinations sends the signal to unemployed workers that they are expected to take the initiative to actively seek work and be accountable.

One established method to improve integrity is the Eligibility Review Program (ERP), which ensures that benefits are being properly paid by continuously reviewing a claimant's ability to work and promoting an active search for work by assisting claimants in their job search plan. Although the ERP program has been demonstrated to be effective in reducing unemployment duration, it has been underfunded in recent years.

Historically, during times when significant numbers of claims are processed under strained conditions the number of claims 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. Fraudulently claimed overpayments typically range from 2% to 3% of payments, and also increases with the amount of payments being made. A UI program that pays out more than \$120 billion is likely to have overpayments of close to \$12 billion including up to \$3.6 billion in fraudulent overpayments. In light of this, targeted administrative funding is essential immediately. The longer the lack of dedicated funds for integrity functions, the more difficult it will be to assure active work search, avoid inaccurate payments, or effectively collect overpayments. Also, immediate attention and publicity of the fact that the agency is cracking down on fraud serves as a deterrent to fraud. Funding is needed to procure detection and collection systems and dedicate staffing to increase the capacity and 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 also be helpful in indentifying erroneously paid and charged benefits

It should be noted that the Congressional Budget Office and the Administration have recognized that dedicated integrity funding produces net revenue for the federal unified budget. The combination of compelling need and net benefit to the budget should prompt immediate action.

**Examine the Impact of the American Recovery and Reinvestment Act (ARRA)
Unemployment Compensation Related Provisions**

The Emergency Unemployment Compensation (EUC), the Federal Additional Compensation (FAC) and the 100% Reimbursement of state benefit payments for regular federal extended benefits provided for in the American Recovery and Reinvestment Act (ARRA) have served to provide needed support for unemployed workers who became unemployed due to the recession. They may also have had the unintended consequence of contributing to the increase in the duration of unemployment compensation and restricting states in addressing solvency.

A comparison of the average duration of weeks of state unemployment compensation from the fourth quarter of 2008 to the fourth quarter of 2009 shows a dramatic increase in average duration nationally from 14.9 weeks of benefits to 18.8 weeks of benefits.

A rough rule of thumb used by the Congressional Budget Office (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.

A comprehensive study of the effect of the federal extensions on the duration of unemployment in Pennsylvania during the 1980s was conducted by Stephen Jarajda and Frederick Tannery and published in the Cornell Industrial and Labor Relations Review in 2003. The study confirmed the findings of previous literature that there is an adverse effect of longer unemployment entitlement on duration of unemployment. In the Pittsburgh labor market 19% of unemployed claimants found new work immediately after exhausting benefits and another 10% were rehired by their previous employer. In Philadelphia, nearly one-quarter of the unemployed found new work immediately after exhaustion and another 2% were hired by their previous employer. The EUC program has provided unemployment compensation payments for up to 53 weeks with an additional \$25 per week provided under the FAC.

The FAC may have the effect of increasing the cost of labor, particularly as job opportunities return. A \$25 per week addition is nearly a 10 percent increase on average, and for claimants with lower wages this additional weekly payment may be a disincentive to accepting work as it becomes more readily available.

The FAC provisions also contained language that restricts states from adopting measures to address state UI trust fund solvency.

The language in the ARRA with respect to the FAC provides that an agreement under which the FAC is paid from federal funds would cease to apply upon a determination by the Secretary of Labor that the method governing the computation of regular compensation under the State law of that State has been modified in a manner that

- (1) The average weekly benefit amount of regular compensation which will be payable during the period of agreement will be less than
- (2) The average weekly benefit amount of regular compensation which would otherwise have been payable during such period under the State law as in effect on December 31, 2008.

This language has become an issue in a number of states considering options to address solvency, and has been cited as a restriction against reductions of maximum weekly benefit amounts as part of solvency packages even in states with the maximum weekly benefits among the highest in the country.

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 governments or Indian tribe accounts.

The result of the 100% reimbursement provision has been not only to increase the number of states triggering on regular federal extended benefits of 13 or 20 weeks, but also to increase the amounts needed from the Federal Extended Unemployment Compensation account to provide for state reimbursement.

In recent months there has been a downward trend in initial claims for unemployment compensation that hopefully is the sign of a longer term sustainable recovery. As of the week ending April 3rd, the average initial claims number for the most recent four weeks was 450,250. A number below 400,000 is generally accepted as indicative of normal (non-recessionary) claims levels.

LONG TERM STRATEGIES

Conduct a Study and Make Recommendations

A careful study of UI system solvency is needed with implementation to begin as the economy fully recovers. The study should include a review of the major revenue and cost drivers in the current system, including 1) state and federal unemployment tax bases, 2) tax rates, 3) adjustments in tax and benefit amounts, 4) benefit eligibility requirements and conditions of payment, 5) weekly benefit amounts and duration, 6) debt management,

7) extended benefit trigger provisions, 8) circumstances under which Federal loans may be available to states and terms of repayment, 9) clear delineation of the scope of the employer financed unemployment insurance system within the larger context of social safety net programs, and 10) proper administrative financing, including targeted administrative funding for integrity.

Experience Rating

A critical element of the Federal/State unemployment compensation system is the requirement that employer contribution rates under state law must be based on factors related to unemployment. This requirement assures greater employer participation in determinations with respect to the allowance of unemployment compensation benefits and weekly determinations of eligibility because employers have an economic interest in whether their accounts are charged and their contribution rates are increased. The requirement adds integrity to the system by increasing the likelihood that UI agencies will have the information needed to determine fraud and overpayments.

The experience rated system assists in avoiding erroneous payments and preserving unemployment trust fund dollars for those who properly qualify.

It also enables employers to project unemployment compensation costs, encourages proper management of human resources, and provides a fair basis upon which to distribute the cost of state unemployment compensation among the employers participating in the system.

In reviewing state unemployment tax rates, a comparison of state contribution rate schedules could be helpful in identifying best practices. The experience rate index (ERI) maintained by USDOL demonstrates that in some states many employers have contribution rates at the maximum rate, resulting in less incentive to control unemployment compensation costs. Some states have high minimum tax rates, resulting in greater contributions to be paid by employers that may never have laid-off an employee. Some states have a limited number of tax rate increments, reducing the incentive to manage costs.

The experience rated system works best when there is a direct relationship between unemployment claims experience and contribution rates. Artificial minimums or maximums may result in non-experienced based cost shifting. However, it should be recognized that each state has a different industrial mix, claims pattern and history that should be considered in any comparison.

There should also be an evaluation of the so called “non-charged” benefits that have increased in a number of states, undercutting the experience rated features of the program.

Long Term Solvency and Debt Management

The size of the state unemployment trust fund debt is so great in most states that a goal to meet solvency standards suggested by USDOL or the existing state law solvency standards within five years would require tax increases and/or benefit cuts which are simply too great, and would destroy the creation of jobs or eviscerate the primary safety net for the state workforce.

The review of possible solutions to the long term problem should include the write off of outstanding loans while addressing the need to reset the size of the program and the financing of it.

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 June 2011.

The response in the 1980s was to effectively increase the FUTA tax from \$21 per employee per year to \$56 per employee per year. A similar size flat tax increase would result in an increase from \$56 per employee per year to \$149 per year, a near tripling of the FUTA tax on top of the already increasing state unemployment taxes adversely impacting employers, particularly those with the lowest state unemployment contribution rates.

Avoid Job Killing Increases in 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 is becoming very significant in 2010 and the years to follow.

State unemployment taxes will be increasing dramatically in the next two years and 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 point of comparison, for 1982, the state unemployment tax as a percent of total wages was 1.759%, nearly triple the state UI taxes as a percent of total wages of 0.61% as of the second quarter of 2009. Increases of this size will adversely impact job creation. A plan to address taxes and benefits while managing the outstanding debt is needed.

Reduce Unemployment Compensation Pay-Out

As the economy recovers, jobs become more widely available and the unemployment rate declines, there will be a reduction in benefit pay out. At the same time increases in unemployment tax revenue will result from higher payrolls, experience rate tax increases and solvency taxes. Although the trend lines will improve, without carefully assessing the long term cost of benefits and taxes and making appropriate adjustments, history will repeat itself with benefit obligations in the next recession that outstrip our ability to pay.

Since the 1980s the scope of the unemployment insurance system in a number of states has been expanded and benefit payout associated with these expansions has contributed to the insolvency of the state unemployment benefit accounts and ultimately the depletion of the Federal Unemployment Account.

Areas to review for reductions include monetary qualifying requirements, dependency allowances, weekly benefit amounts, waiting periods, work search and availability requirements, conditions of removal of disqualifications, overpayment collections, and fraud.

In some instances, expanded benefit provisions were enacted with a provision socializing the cost or relying on temporary funding. Unfortunately, although benefit costs may not be charged to a specific employer account, the increased cost to the state unemployment trust fund nonetheless must be paid for with taxes to be paid by all employers or cuts in other benefit provisions. Also, long term costs associated with expansions that were temporarily funded nonetheless must be accounted for in determining long term solvency and making adjustments.

Keep the role of the UI program as it was established

As it was enacted and signed by President Roosevelt in 1935, the unemployment insurance program was smaller in scope than it is today. The program did not include a federal extended benefit program and there was no requirement that individuals working for non-profit agencies or state and local governments were to be covered for state unemployment compensation. Legislation enabling states to borrow from federal funds to pay unemployment benefits did not begin until the late 1950s and the Federal/State Extended Unemployment Compensation Act was not enacted until 1970.

At inception, however, unemployment insurance was a more important part of the national social safety net because the workforce relied primarily on wages and savings for economic security. The UI system was established as a temporary partial wage replacement program for workers who became unemployed through no fault of their own in connection with their work who were able to work, available for work and actively seeking work. That purpose and focus should be maintained.

A long list of social safety net programs and services has been established since unemployment insurance was enacted in 1935. The list includes TANF, TAA, WIA,

SNAP, Medicaid, Medicare, heating assistance, subsidized housing, subsidized child care, subsidized health care, and earned income tax credits. Many of these programs include a cash assistance component.

Unemployment insurance plays a relatively minor role in the social safety net for individuals eligible for many of these programs. Economically disadvantaged individuals typically rely more on public assistance and social service programs for support than wages.

An individual who earns \$100 per week for 30 weeks a year would typically be eligible for assistance under many social service programs for the economically disadvantaged and would rely principally on support from those programs. Because UI is only a partial wage replacement program for such an individual, he or she would be likely to receive only approximately \$50 per week in unemployment compensation for up to 26 weeks, significantly less than the support provided by other programs.

Unemployment Insurance is much more important in providing economic security for individuals who rely principally on their employment and wages for support. The UI program serves a very specific purpose that employers are willing to support with dedicated employer tax dollars.

In developing plans to assist unemployed workers in returning to work, the UI program should be used in conjunction with workforce programs dedicated to provide job search, reemployment and training services that may be funded from other sources but are aligned to provide economic security and effective workforce services to the benefit of the individual, employers, and economic development.

CONCLUSION/RECOMMENDATION

The status of the slowly recovering economy dictates that, although the state and federal trust funds are insolvent, we must first do no harm to discourage job creation and economic recovery. The federal penalties that would otherwise be imposed in the form of Title XII loan interest and the FUTA offset credit penalty should be waived for two years to avoid dampening the creation of jobs and the economic recovery.

States should be properly funded to work with unemployed workers and employers to improve initiatives and services designed to return unemployed claimants back to work. The REA program, Rapid Response services, eligibility reviews, job search services that utilize electronic work search tools as well as assessment and referral techniques, and improved integrity should receive priority funding with the expectation that there will be a quantifiable reduction in the duration of unemployment compensation and an increase in the number of unemployed claimants referred and hired.

Training initiatives should be closely coordinated with employers in developing customized training, OJTs, apprenticeships and other employer based training that leads to employment.

Training and services provided for unemployed claimants should also be coordinated with providers in the private sector and with other workforce programs aligned to put claimants back to work.

A comprehensive study of the primary cost and revenue drivers of the federal and state unemployment system should be conducted with a view toward identifying solutions that recognize the need to avoid tax increases that would negatively impact job creation and reduce long term benefit pay-out without impairing the mission of the program to provide temporary partial wage replacement for unemployed workers who become unemployed through no fault of their own in connection with their work.

NATIONAL ASSOCIATION OF STATE WORKFORCE AGENCIES (NASWA)

**SUBMITTED BY KAREN LEE
NASWA PRESIDENT AND COMMISSIONER,
WASHINGTON STATE EMPLOYMENT SECURITY DEPARTMENT**

APRIL 14, 2010

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, "Using Unemployment Insurance to Help Americans Get Back to Work: Creating Opportunities and Overcoming Challenges." 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

The United States is attempting to recover from the worst recession since the 1930s. At 9.7 percent, the unemployment rate is about twice what it was in December 2007 at the beginning of the recession. Since that time, employers have shed about 8.4 million jobs. We would need about 11 million jobs to restore the unemployment rate prevailing before the start of the recession. Although job losses have subsided recently, employment has yet to show substantial and sustained increases.

The Congressional Budget Office (CBO) projects the unemployment rate will turn downward in the second half of this year, but remain above 8 percent until 2012. The U.S. Department of Labor's (USDOL) FY 2011 budget assumes the average number of individuals receiving unemployment benefits will remain high in FY 2010-2011, peaking at 16.2 million in FY 2010 and dropping slightly to 15.3 million in FY 2011.

Most economists project the recession soon will be declared over and suggest a moderate recovery has begun already. Hiring usually lags during the early stages of an economic recovery because firms tend to increase output by raising productivity or the number of hours that existing employee's work; adding employees tends to occur later when higher demand for output appears relatively more certain. The unemployment rate also lags because the number of workers seeking work also increases in a recovery as many discouraged workers return to the labor force.

In the last two recessions -- July 1990 to March 1991, and March to November 2001 -- unemployment continued to surge for more than a year after the "trough" of the business cycle, which marks the end of a recession and the beginning of a recovery.

The ability of unemployed workers to obtain new jobs quickly is likely to be more difficult in this recovery than in past ones. CBO projects gains in employment after this recession probably will rely more than usual on the creation of new jobs rather than the return of workers to the jobs from which they were temporarily laid off. These new jobs could be in new firms that are located in

different places and could require workers with different skills than those needed in the jobs that have disappeared. For workers who have lost jobs to which they cannot return, acquiring new skills might be necessary.

The Structure of the Unemployment Insurance System

The unemployment insurance (UI) program is an entry point to the nation's one-stop career center system for workers who lose their jobs. For many workers, this may be their first interaction with the publicly-funded workforce system. It should provide timely income support, while promoting the integrity of the program and emphasizing reemployment of UI claimants.

The 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 federal Unemployment Trust Fund in the U.S. Treasury.

Administering unemployment benefits, which occurs at the state level, involves a number of efforts. For example, states are responsible for: (1) processing benefit payments for both state and federal claims; (2) preventing overpayments and fraud; (3) answering thousands of questions they receive from UI claimants and employer taxpayers; and (4) resolving disputes about job separations between UI claimants and employers in the claims adjudication process. These are time consuming tasks made harder by a record number of claimants during and after the recession.

The amount of benefits for which claimants qualify is based on their recent individual work and wage histories. Generally, up to 26 weeks of benefits are available in states. However, most UI claimants go back to work before receiving their maximum entitlement. During periods of high unemployment, an additional 13 to 20 weeks of extended benefits, financed equally by the states and federal government, might be available. The federal government might also act to provide special federally financed benefits during recessions as it has done in reaction to all recessions since the 1960s.

The American Recovery and Reinvestment Act (Recovery Act) provided the following benefits for UI claimants, all of which lapsed on April 5. I urge these programs be extended immediately until the end of 2010.

- The Emergency Unemployment Compensation (EUC) program, commonly known as EUC08.
- Federal Additional Compensation (FAC) to temporarily increase all UI benefits by \$25 a week.
- Temporary modification in the permanent federal-state extended benefits (EB) program in which the Federal government pays 100 percent of EB costs.
- For insolvent state UI programs receiving loans to pay benefits, the Recovery Act waived charging interest on these loans until January 2011. NASWA supports extending this provision for two additional years. However, concerns have been expressed by solvent states about the "moral hazard" to solvency and the added federal unemployment taxes on employers in solvent states to finance the interest free loans.

The Current State of the Unemployment Insurance System

While much has 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 the unprecedented challenges of the “Great Recession.”

Because of chronic federal underfunding of the states for the administration of the UI system, State Workforce Agencies operate UI computer systems based on outmoded and less flexible technologies than are available today. The average age of state UI computer systems is 23 years. The enormous influx in workload brought on by the recession, coupled with outdated information technology (IT) systems in most state UI agencies, have led to a decrease in every area of UI program performance. NASWA, in testimony before the House Committee on Appropriations, requested \$500 million to help states modernize state UI computer systems to improve efficiency and performance.

The antiquated computer systems result in inefficiencies and increased administrative burden, especially when states are required to adjust benefits, such as those associated with the Emergency Unemployment Compensation program (EUC08). In addition to problems states encounter when making programming modifications to EUC08, the uncertainty surrounding the sunset of the federal extended benefits program - resulting in month-to-month extensions - has overwhelmed state UI agencies with the added workload of increased phone calls from claimants.

The federal government should extend EUC08 until the end of the year immediately and Congress should consider declaring these benefits as emergency spending. With about 11 million Americans collecting either state or federal benefits, it is hard to understand why this is not an emergency. If there is a need for deficit spending now to continue stimulating the economy, spending more on extending unemployment benefits is one of the best options. In a February, 2010 report, the Congressional Budget Office (CBO) concluded: *Households receiving unemployment benefits tend to spend the additional benefits quickly, making this option both timely and cost-effective in spurring economic activity and employment.*

Solvency of State Unemployment Insurance (UI) Trust Funds

Recessions offer significant challenges to state unemployment insurance (UI) trust funds in the form of increased benefit outlays, extended durations of claims and declines in taxable payrolls resulting in decreased UI revenues. The crisis currently facing many state UI trust funds has proven that the Great Recession is similar, but worse than those of the past. As of April 6, 2010, a total of 34 states and the Virgin Islands have borrowed more than \$39 billion from the Federal government to finance their unemployment benefits. The U.S. Department of Labor (USDOL) has estimated by the end of FY 2012, 40 states will have federal loans outstanding of more than \$90 billion.

Pursuant to the Federal Unemployment Tax Act (FUTA), a tax is levied on covered employers at a rate of 6.2 percent on wages up to \$7,000 a year paid to an employee. However, FUTA provides a credit against the federal tax of 5.4 percent to employers in states with an approved state unemployment insurance (UI) program and no overdue federal UI loans. All state programs are approved. Accordingly, in states with no overdue loans, employers pay a federal tax rate of 0.8 percent, or a maximum \$56 per covered employee, per year.

If states do not repay their loans within two to three years, the Federal Unemployment Tax Act (FUTA) tax rate will increase on the states' employers (known as a FUTA credit reduction). Each year the loans are overdue, employers can lose at least 0.3 percentage point from the federal credit, which increases the net tax rate by 0.3 percentage point in the first year it is overdue for a tax rate of 1.1 percent, 0.6 percent in the second year it is overdue for a tax rate of 1.4 percent, and so on until the loan is repaid.

States also would be charged interest against their outstanding loans at a rate equal to the lower of 10 percent or the rate at which interest was paid on the state reserve balance in the federal unemployment trust fund for the last quarter of the preceding calendar year. The interest is normally due on the last day of the fiscal year in which the loans were made. Interest cannot be repaid, either directly or indirectly, from the repaying state's UI trust fund. If a state fails to pay interest for any year on which it is due, the state could lose all offset credit (5.4 percent) for its employers as well as all grants for costs of administration until interest due has been paid. Thanks to the provisions included in the Recovery Act by the Senate Committee on Finance, states are not charged interest on federal loans through the end of 2010. NASWA urges waiving interest on UI loans to states for an additional two years.

By 2012, some 25 states will be facing escalating tax increases on employers to repay loans. The following shows when certain states potentially will face the beginning of escalating FUTA tax increases:

- **MI:** 0.3 percent FUTA credit reduction (i.e., 1.1% tax rate) has been assessed on employers beginning Jan. 1, 2010 (determined in November 2009);
- **IN and SC:** 0.3 percent FUTA credit reduction (i.e., 1.1% tax rate) potentially will be assessed on employers beginning January 1, 2011 (determined in November 2010);
- **AL, AR, CA, CT, FL, GA, ID, IL, KY, MN, MO, NC, NJ, NV, NY, PA, OH, RI, SD, TX, VA, and WI:** 0.3 percent credit reduction (i.e., 1.1% tax rate) potentially will be assessed on employers beginning January 1, 2012 (determined in November 2011); and
- **AZ, CO, KS, MA, MD, NH, and VT:** 0.3 percent credit reduction (i.e. 1.1% tax rate) potentially will be assessed on employers beginning January 1, 2013 (determined in November 2012).

The Negative Consequences of Rapidly Increasing Employer Taxes

In order to repay loans with state funds, states will need to build up trust fund reserves by raising taxes on employers or reducing benefit outlays or some combination of the two approaches; actions that could reduce the UI program's role as a prime federal government economic stabilizer and dampen consumer demand, job creation, and economic stability and growth. Increasing UI taxes, in particular, can have a detrimental effect on workers' wages and employment, especially if substantial tax increases occur too soon in the wake of a recession. Cutting benefits can reduce consumer demand and slow the economic recovery.

The burden of increased taxes on employers is mostly shifted to workers, particularly low-wage workers, in the form of decreased hiring or reduced benefits or wages. Low-wage workers in particular are disproportionately affected because relatively low taxable wage bases apply only to the initial wages paid to a worker in a year. The federal taxable wage base of only \$7,000, for

example, hits employment of workers making, say, \$20,000 per year, proportionately more than employment of workers making, say, \$40,000 per year. In some instances, such measures might be necessary to restore the long-run balance in a state UI program, but such tax increases during a recession could hurt the very workers the unemployment insurance system aims to help.

The State UI Program Solvency Situation is Not Unprecedented

The recession of 1981–1982 lasted for a total of 16 months. Many states, having just recovered from the 1973–1975 recession, were unable to finance their state UI benefits and were forced to borrow from the federal government. By the end of 1983, a total of 21 states and the District of Columbia had borrowed \$13.3 billion dollars from the federal government and were unlikely to repay the advances in the near future. In 2010 dollars, this level of borrowing is \$29 billion compared to today's level of almost \$40 billion.

In response to the inability of states to repay these advances, Congress passed a series of laws from 1981–1983 (some permanent and others temporary) to assist states in the repayment of these loans. The Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) allowed a state's employers to cap the FUTA credit reduction at a specified level if their state met criteria aimed at improving the long-term solvency of its unemployment insurance trust fund. The Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) increased federal unemployment taxes and allowed a state's employers to avoid the FUTA credit reduction entirely by repaying a portion of their outstanding loan as well as fulfilling several requirements meant to improve solvency. The Social Security Amendments of 1983 (P.L. 98-21) authorized special partial caps to the FUTA credit reduction for states that met some of the criteria necessary to receive a full cap on the level of the FUTA tax increase.

States facing FUTA tax increases in the 1980's benefited from these permanent and temporary measures by correcting their fiscal imbalances and repaying their outstanding loans to the federal government. States with overdue outstanding loans in the coming years might use these provisions in the future. States took advantage of the available FUTA credit reduction caps and repaid all loans by 1990.

Why Are So Many State UI Programs Insolvent?

There are two basic reasons why so many state UI programs are insolvent: (1) the recession; and (2) many state trust funds were not prepared to weather a severe recession without borrowing.

The national unemployment rate increased by 4.7 percentage points from 5 percent at the beginning of the recession in December 2007 to its current level of 9.7 percent. A near doubling of the national unemployment rate was bound to have a devastating effect on state UI programs. The impact was even worse in some states. For example, unemployment rates increased by 7.5 percentage points in Florida, 7.4 percentage points in Nevada, 7.2 percent in Rhode Island, 7.1 percent in Alabama, and 6.5 percentage points in Michigan. (*See Appendix, Difference in State Reserve Levels, 4th Quarter of 2007 - 4th Quarter of 2009; Difference in State Unemployment Rates, December 2007 - February 2010*) Of the 23 states that experienced increases in their unemployment rates above the national average, 19 have been forced to borrow to cover UI benefit costs.

A way to gauge whether a state was prepared to weather a severe recession without borrowing is to compare: (1) its trust fund reserves relative to total covered wages paid by employers in the state during the most recent year to (2) State UI benefit costs relative to total covered wages paid by

employers in the state in the year it experienced its highest benefit cost rate in the history of the program. (The benefit cost rate is benefits paid during the year divided by covered wages paid by employers in the state that year.) A ratio of (1) to (2) is called the “high-cost multiple.” Such a ratio equal to one means a state has enough reserves to meet the highest UI benefit cost rate it has experienced in its history with its reserves alone. With unemployment tax revenue flowing into the state trust fund during the year, a state also has those funds available to cover UI benefit costs during the year.

Recognizing a state can cover the costs of UI benefits from reserves and unemployment taxes flowing into the trust fund when a recession hits, a “high-cost” multiple of at least 0.5 could be used as a rough gauge to assess if a state could weather a recession by spending its reserves and unemployment tax revenue flowing into the trust fund during a recession year. By this measure, at the beginning of this recession, 30 states were at risk of needing to borrow. All but one of these 30 states has borrowed to cover UI benefit costs already. In addition, six state UI programs above 0.5 but below 0.75 also have borrowed. With USDOL projecting a peak of 40 states borrowing, the other states that have not borrowed yet who were below the ratio of 0.75 at the beginning of the recession are the likely states to borrow before the end of 2011.

States already are adjusting to the drain on their reserves as a result of the spike in benefit outlays. This year, 35 states reported their unemployment taxes are higher than last year with a median increase of nearly 28 percent. Such increases occur automatically through the normal “experience rating” mechanisms in the states as employers’ tax rates rise in response to the benefits paid to their laid off workers. Other automatic responses include shifting to higher tax schedules as state trust fund reserves decline and activating statutory solvency taxes to replenish trust fund reserves.

Meanwhile some states have revisited the changes to their automatic or discretionary changes to their tax structures enacted in 2009 to lessen the escalating level of taxes on employers. Florida, Hawaii, Indiana, and Kansas, for example, have either postponed tax increases or reduced the amount of the increase.

POLICY OPTIONS TO ASSIST WORKERS FACING A JOB LOSS

Short Time Compensation (Shared Work Program)

Short-time compensation (also known shared work) is an option within the federal-state unemployment Insurance (UI) system that allows employers to reduce work hours rather than lay off a portion of the workforce. Some 17 states have exercised this option.

A temporary national program was enacted in 1982 and permanent changes to federal law were made in the Unemployment Compensation Amendments of 1992. Concerns over the limitations of the 1992 legislation have hampered the ability to expand this layoff aversion program beyond the original 17 states. This uncertainty has not been resolved. Since then, states with STC programs have continued operating them and additional states that might be interested have been uncertain how to proceed without new federal guidance.

The time is right for Congress or USDOL to address the uncertain interpretation of the 1992 law. In 2010, some 7 states – Colorado, Hawaii, New Hampshire, New Jersey, Ohio, Oklahoma and Pennsylvania – are in various stages of adopting shared work programs. It is especially encouraging that, just as in Washington State, many of these other states are embracing shared-work and bringing together government, business and labor leaders in an effort to preserve jobs.

Washington State's Shared Work Program

Although it's been in place since 1983, Washington's shared work program was not widely known in the State. But in 2009, in the depths of the recession, a record 2,800 businesses and some 51,000 employees were approved to participate in the program, up from 621 employers and 21,272 employees in 2008. The program is also flexible, allowing individual employees to work full-time one week and part-time the next, depending on the employer's needs.

The Washington State Employment Security Department paid \$40 million in shared work benefits to participants in 2009. The department would have paid an estimated \$54 million in additional benefits if the equivalent number of workers had been fully laid off and collected the state average of 17 weeks of benefits.

Last year, as the recession grew deeper, the Department concluded it was important to remind employers about this important layoff-aversion program. We also knew from experience that most businesses learn about shared work from other employers who have used the program. Washington worked in collaboration with our Chambers of Commerce and other business associations to help get the word out to their members – and it has been a very successful partnership. Within weeks after business organizations began running our newsletter article, the number of applications arriving each week nearly doubled.

The program allows employers to cut their payroll costs by reducing the hours of their full-time employees, and the workers collect partial unemployment benefits to make up for some of the lost wages. The estimate of jobs saved last year through shared work comes from information on the employers' original applications combined with their actual use of the program. The program is designed to be flexible, so employers can add or reduce work hours based on their workload needs.

Both public-and private-sector employers are eligible to participate in the program, and employers of all sizes are accepted. Shared-work benefits may be paid for up to 52 weeks, and only full-time, hourly workers who meet eligibility criteria are eligible for the program. The program will not subsidize seasonal employees, part-time employees, corporate officers or employees paid on a piece rate, mileage rate, job rate, salary or commission basis.

The program not only helps keep workers employed, but also helps companies stay in business. All over the state, business owners have told us how important the shared work program is to them and their employees.

At Gear Works, a 63-year-old company in Seattle's South Park neighborhood, business has been down about 25 percent from last year, and in February, the company laid off eight workers. In March, it signed up for shared work and avoided laying off 13 others. At one point, two-thirds of Gear Works' 95 hourly employees were working reduced hours and drawing the partial unemployment benefits.

Reemployment Services (RES)

Reemployment services (RES), deployed to UI claimants through the One-Stop Career Centers, accelerate the UI claimants' return to work. These grants provide job search tools, early intervention services, career guidance, job referrals, and training for UI claimants who currently do not receive these services.

An investment of \$500 million for reemployment service grants would assist 1.4 million unemployment insurance claimants get back to work. 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. Depending on state program design and effectiveness, it might even be possible to gain even larger declines in duration on UI, and, therefore, even greater savings.

The Recovery Act appropriated \$250 million for reemployment services to unemployment insurance claimants and more than 3.3 million workers have received services. Of this number, 24 percent were receiving career guidance; 66 percent were receiving job search assistance and 30 percent were referred to Workforce Investment Act services. Most states have hired temporary staff to assist UI claimants with services such as job search workshops, resume assistance, and labor market information, but these temporary hires will not be able to work beyond September 30, 2010, after which RES funds may not be obligated under the Recovery Act.

Many studies have found emphasis on reemployment of UI claimants' results in shorter claims duration for beneficiaries, savings to the UI program, and potentially lower taxes for employers. For example:

- In Washington State, staff-assisted placement services reduced UI claimants' duration of unemployment by 7.7 weeks; (Westat 2000);
- Staff-assisted job matching reduces unemployment by 3-6 weeks, which is more than enough to pay for the low-cost services in terms of reduced UI outlays and increased earnings (Lou Jacobson, CNA Corporation, February 28, 2006); and
- The most recent report, completed in December 2006, but not released by USDOL until 2008, concluded that a Wisconsin demonstration project succeeded in increasing the collaboration between the state's UI and Job Service agencies through both its data sharing component and its implementation of expanded reemployment services for unemployment insurance claimants. The Wisconsin RES study concluded that RES had the effect of reducing claimants' duration on UI by 0.6-0.9 weeks.

Subsidized Employment: TANF Emergency Contingency Fund

The American Recovery and Reinvestment Act of 2009 (Recovery Act) established a new \$5 billion Emergency Contingency Fund to provide states with funding for subsidized employment from the U.S. Department of Health and Human Services (HHS) under the Temporary Assistance for Needy Families (TANF) program. States can receive federal Recovery Act funding until September 30, 2010 for subsidized employment in the following areas: unsubsidized or subsidized employment; work experience; on-the-job training; job search and job readiness assistance; community service; vocational educational training; job skills training related to work; and education directly related to employment.

States are using the TANF Emergency Contingency Fund to create jobs, stimulate the economy, and reduce hardship. As of April 1, some 26 states had been authorized to use TANF Emergency Contingency Funds to establish new or expand subsidized employment programs. In addition, approximately ten states have applications pending with HHS to begin operating such programs

shortly. According to the Center on Budget and Policy Priorities, these 26 states are estimated to provide subsidized jobs to about 160,000 individuals by the end of September 2010.

This program is creating jobs at a lower cost per job than virtually any other measure Congress is considering. It is also unique among the range of job creation proposals because it provides states with great flexibility to design employment approaches that respond to a state's particular circumstances. States have tailored these programs so they are creating jobs in urban and rural communities alike. States are using existing infrastructures to identify and screen potential employees and to recruit employers to participate, keeping costs of program administration low.

In addition, both the Department of Health and Human Services and the Department of Labor recently issued a joint letter to urge workforce and human services agencies to work together to explore all funds available for the creation and expansion of subsidized summer employment programs for low-income youth. It encouraged State and local TANF agencies and workforce investment boards to take advantage of the subsidized employment opportunities made available by partnering Workforce Investment Act and TANF resources.

A number of states have made great use of these funds to work with employers and unemployment insurance claimants to help them transition into the workforce. Texas for example, established a public-private partnership with employers in the local workforce development areas to target first-time unemployment insurance (UI) claimants who previously earned less than \$15 an hour. Florida, earlier this year, established a program where public and private employers can enter into contracts with local workforce boards to cover nearly all of the salary costs for employees. The program will pay up to 95 percent of the salary cost for each employee. And Mississippi has established a program where employers will be reimbursed for each new worker's full salary for the first two months of work, and then the monthly reimbursement will be scaled back gradually until it drops to just a quarter of the salary in the sixth month.

The TANF emergency funds allow states to work with their unemployment insurance claimants and allow employers to examine a range of options to facilitate employment. With unemployment expected to remain high for the next few years, it is essential to extend the TANF Emergency Contingency Fund at least through September 30, 2011.

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 already are 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 too much into 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.

Selected Characteristics of State UI Tax Structures

STATE	2009 Taxable Wage Base	2010 Taxable Wage Base	Indexed Taxable Wage Base	2009 Average Tax Rate on Total Wages	2009 Average Tax Rate on Taxable Wages
Alabama	\$8,000	\$8,000		0.38	1.51
Alaska	\$32,700	\$34,100	X	1	1.15
Arizona	\$7,000	\$7,000		0.29	1.3
Arkansas	\$10,000	\$12,000		0.84	2.56
California	\$7,000	\$7,000		0.78	4.29
Colorado	\$10,000	\$10,000		0.42	1.6
Connecticut	\$15,000	\$15,000		0.69	2.61
Delaware	\$10,500	\$10,500		0.57	2.5
District of Columbia	\$9,000	\$9,000		0.32	2.04
Florida	\$7,000	\$7,000		0.34	1.55
Georgia	\$8,500	\$8,500		0.4	1.69
Hawaii	\$13,000	\$34,900	X	0.3	0.82
Idaho	\$33,200	\$33,300	X	0.87	1.31
Illinois	\$12,300	\$12,520		0.95	3.73
Indiana	\$7,000	\$9,500		0.6	2.71
Iowa	\$23,700	\$24,500	X	0.85	1.6
Kansas	\$8,000	\$8,000		0.51	2.13
Kentucky	\$8,000	\$8,000		0.8	3.18
Louisiana	\$7,000	\$7,700		0.29	1.38
Maine	\$12,000	\$12,000		0.6	1.62
Maryland	\$8,500	\$8,500		0.53	2.49
Massachusetts	\$14,000	\$14,000		1.14	4.4
Michigan	\$9,000	\$9,000		1.18	5.05
Minnesota	\$26,000	\$27,000	X	0.8	1.73
Mississippi	\$7,000	\$7,000		0.38	1.84
Missouri	\$12,500	\$13,000		0.63	2.01
Montana	\$25,100	\$26,000	X	0.69	1.14
Nebraska	\$9,000	\$9,000		0.37	1.35
Nevada	\$26,600	\$27,000	X	0.7	1.25
New Hampshire	\$8,000	\$10,000		0.27	1.26
New Jersey	\$28,900	\$29,700	X	0.83	1.97
New Mexico	\$20,900	\$20,800	X	0.56	1.11
New York	\$8,500	\$8,500		0.59	3.77
North Carolina	\$19,300	\$19,700	X	0.68	1.53
North Dakota	\$23,700	\$24,700	X	0.55	1
Ohio	\$9,000	\$9,000		0.76	2.96
Oklahoma	\$14,200	\$14,900	X	0.41	0.74
Oregon	\$31,300	\$32,100	X	1.16	1.91
Pennsylvania	\$8,000	\$8,000		1.01	4.83
Puerto Rico	\$7,000	\$7,000		1.5	2.3
Rhode Island	\$18,000	\$19,000		1.25	3.49
South Carolina	\$7,000	\$7,000		0.5	2.07
South Dakota	\$9,500	\$10,000		0.25	0.82
Tennessee	\$7,000	\$9,000		0.39	1.74
Texas	\$9,000	\$9,000		0.28	1.23
Utah	\$27,800	\$28,300	X	0.3	0.53
Vermont	\$8,000	\$10,000		0.89	3.48
Virgin Islands	\$22,100	\$22,200	X	0.1	0.18
Virginia	\$8,000	\$8,000		0.23	1.14
Washington	\$35,700	\$36,800	X	0.82	1.38
West Virginia	\$8,000	\$12,000		0.72	2.7
Wisconsin	\$12,000	\$12,000		0.8	2.7
Wyoming	\$21,500	\$22,800	X	0.58	1.24
US Total	-	-	17	0.67	2.27

Denotes Borrowing States as of 4.6.2010

Source: U.S. Department of Labor, Employment and Training Administration - Significant Provisions of State UI Laws Effective January 2010, Significant Measures of State UI Tax Systems (CY 2009)

Difference in State Reserve Levels, 4th Quarter of 2007 - 4th Quarter of 2009; Difference in
State Unemployment Rates, December 2007 - February 2010

STATE	HCM, 2007.4	HCM, 2009.4*	Difference in HCM, 2007.4 and 2009.4	December 2007 Unemployment Rate	February 2010 Unemployment Rate	Difference in Unemployment Rate, Dec. 2007 - Feb. 2010
Alabama	0.33	N.A.	N.A.	4	11.1	7.1
Alaska	0.78	0.64	0.14	6.5	8.5	2
Arizona	0.44	N.A.	N.A.	4.7	9.5	4.8
Arkansas	0.18	N.A.	N.A.	5.9	7.7	1.8
California	0.18	N.A.	N.A.	6.1	12.5	6.4
Colorado	0.59	N.A.	N.A.	4.5	7.7	3.2
Connecticut	0.23	N.A.	N.A.	5	9.1	4.1
Delaware	0.43	N.A.	N.A.	3.8	9.2	5.4
District of Columbia	0.8	0.66	0.14	6.1	11.9	5.8
Florida	0.46	N.A.	N.A.	4.7	12.2	7.5
Georgia	0.42	N.A.	N.A.	4.8	10.5	5.7
Hawaii	1.5	0.35	1.15	3.2	6.9	3.7
Idaho	0.35	N.A.	N.A.	3	9.5	6.5
Illinois	0.3	N.A.	N.A.	5.5	11.4	5.9
Indiana	0.2	N.A.	N.A.	4.6	9.8	5.2
Iowa	0.69	0.36	0.33	4	6.7	2.7
Kansas	0.71	N.A.	N.A.	4.4	6.5	2.1
Kentucky	0.16	N.A.	N.A.	5.7	10.9	5.2
Louisiana	0.82	0.63	0.19	4.2	7.3	3.1
Maine	1.12	0.82	0.3	5.1	8.3	3.2
Maryland	0.52	N.A.	N.A.	3.8	7.7	3.9
Massachusetts	0.28	N.A.	N.A.	4.5	9.5	5
Michigan	N.A.	N.A.	N.A.	7.6	14.1	6.5
Minnesota	0.3	N.A.	N.A.	4.9	7.3	2.4
Mississippi	1.32	0.89	0.43	6.8	11.4	4.6
Missouri	0.07	N.A.	N.A.	5.5	9.4	3.9
Montana	0.82	0.5	0.32	3.6	6.9	3.3
Nebraska	0.74	0.44	0.3	3.2	4.8	1.6
Nevada	0.63	N.A.	N.A.	5.8	13.2	7.4
New Hampshire	0.43	N.A.	N.A.	3.6	7.1	3.5
New Jersey	0.11	N.A.	N.A.	4.5	9.8	5.3
New Mexico	1.58	0.79	0.79	3.7	8.7	5
New York	0.04	N.A.	N.A.	4.9	8.8	3.9
North Carolina	0.13	N.A.	N.A.	5	11.2	6.2
North Dakota	0.72	0.47	0.25	3.3	4.1	0.8
Ohio	0.09	N.A.	N.A.	6	10.9	4.9
Oklahoma	1.42	0.8	0.62	4.5	6.7	2.2
Oregon	1.14	0.65	0.49	5.6	10.5	4.9
Pennsylvania	0.25	N.A.	N.A.	4.7	8.9	4.2
Puerto Rico	0.73	0.56	0.17	11.2	16	4.8
Rhode Island	0.25	N.A.	N.A.	5.5	12.7	7.2
South Carolina	0.13	N.A.	N.A.	6.6	12.5	5.9
South Dakota	0.25	N.A.	N.A.	3	4.8	1.8
Tennessee	0.3	N.A.	N.A.	5.3	10.7	5.4
Texas	0.4	N.A.	N.A.	4.5	8.2	3.7
Utah	1.15	0.71	0.44	3.2	7.1	3.9
Vermont	0.72	N.A.	N.A.	3.2	7.1	3.9
Virgin Islands	0.68	N.A.	N.A.	4	6.6	2.6
Virginia	0.44	N.A.	N.A.	6	7.8	1.8
Washington	0.98	0.67	0.31	3.5	7.2	3.7
West Virginia	0.35	0.17	0.18	4.8	9.5	4.7
Wisconsin	0.23	N.A.	N.A.	4.9	9.5	4.6
Wyoming	0.95	0.6	0.35	5	8.7	3.7
United States	0.36	N.A.	N.A.	5	9.7	4.7

*In the column HCM, 2009.4, states with outstanding loans as of 4.6.2010 are identified as having a HCM that is Not Applicable (N.A.), regardless of their borrowing status in 2009.4. In 2007.4, Michigan was the only state borrowing and is thus the only state identified with an HCM of N.A.

Shading Denotes Borrowing States as of 4.6.2010

Source: U.S. Department of Labor, Employment and Training Administration, UI Data Summary, 2007.4 and 2009.4; U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS)

**Borrowing States' Minimum Potential FUTA Credit Reductions,
2010 - 2013**

STATE	Date of Initial Advance	Minimum Potential FUTA Credit Reduction			
		2010	2011	2012	2013
Michigan	October 2007	0.30%	0.60%	0.90%	1.20%
Indiana	November 2008	-	0.30%	0.60%	0.90%
South Carolina	December 2008	-	0.30%	0.60%	0.90%
New York	January 2009	-	-	0.30%	0.60%
Ohio	January 2009	-	-	0.30%	0.60%
California	January 2009	-	-	0.30%	0.60%
Kentucky	January 2009	-	-	0.30%	0.60%
North Carolina	February 2009	-	-	0.30%	0.60%
Wisconsin	February 2009	-	-	0.30%	0.60%
Missouri	February 2009	-	-	0.30%	0.60%
New Jersey	March 2009	-	-	0.30%	0.60%
Arkansas	March 2009	-	-	0.30%	0.60%
Rhode Island	March 2009	-	-	0.30%	0.60%
Pennsylvania	March 2009	-	-	0.30%	0.60%
Idaho	June 2009	-	-	0.30%	0.60%
Illinois	July 2009	-	-	0.30%	0.60%
Minnesota	July 2009	-	-	0.30%	0.60%
Texas	July 2009	-	-	0.30%	0.60%
Florida	August 2009	-	-	0.30%	0.60%
Virgin Islands	August 2009	-	-	0.30%	0.60%
South Dakota	September 2009	-	-	0.30%	0.60%
Alabama	September 2009	-	-	0.30%	0.60%
Connecticut	October 2009	-	-	0.30%	0.60%
Nevada	October 2009	-	-	0.30%	0.60%
Virginia	October 2009	-	-	0.30%	0.60%
Georgia	December 2009	-	-	0.30%	0.60%
Colorado	January 2010	-	-	-	0.30%
Massachusetts	February 2010	-	-	-	0.30%
Kansas	February 2010	-	-	-	0.30%
Maryland	February 2010	-	-	-	0.30%
Vermont	February 2010	-	-	-	0.30%
New Hampshire	March 2010	-	-	-	0.30%
Arizona	March 2010	-	-	-	0.30%
Delaware	March 2010	-	-	-	0.30%
Tennessee	April 2010	-	-	-	0.30%

Source: U.S. Department of Labor, ETA

**STATEMENT OF JANE OATES
ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING
U.S. DEPARTMENT OF LABOR
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE**

April 14, 2010

Good morning. Chairman Baucus, Ranking Member Grassley, and distinguished members of the Committee, thank you for this opportunity to discuss the Unemployment Insurance (UI) program and how it can help Americans get back to work. I appreciate the Committee's interest in pursuing potential improvements to this important program.

For 75 years, the UI program has been a critical safety net for American workers and an economic stabilizer in times of recession. As you are well aware, our nation has experienced one of the deepest, longest recessions in history. There has been some encouraging news – last month the economy created the largest number of new jobs in three years – but we still have a long way to go. Job growth remains slow and unemployment – particularly long-term unemployment – continues to plague millions of workers and their families. The UI program has provided a desperately needed lifeline as unemployed workers search for new jobs. It helps workers and their families put food on the table and pay the rent.

It is also an important component of economic recovery. The President's Council of Economic Advisors estimates that every \$1.00 spent on unemployment benefits boosts GDP by \$1.60. According to the Congressional Budget Office, UI benefits were one of the two most cost effective ways to stimulate job growth. As you know, stimulating the economy means retaining and creating jobs.

The President is committed to actively promoting job creation. I thank the members of this committee for their work on the Hiring Incentives to Restore Employment (HIRE) Act, which the President recently signed into law and which will give employers an incentive to hire and retain unemployed workers. The President's Budget includes \$100 billion in job creation, including investments in small businesses, infrastructure, and green jobs. The President has proposed repeating successful Recovery Act programs including summer jobs, Pathways Out of Poverty, and Energy Training Partnerships, as well as making new investments in on-the-job training.

The additional weeks of benefits made available through the Emergency Unemployment Compensation (EUC) and Extended Benefits (EB) programs have been critical for millions of jobless workers. The Administration supports

extending these programs so those workers still seeking employment can maintain their purchasing power and get the help they deserve. Given the following issues: the current employment outlook for workers, the desire to give workers more certainty about future benefits, and the administrative challenges states have faced, and continue to face, with short, one-month extensions; we support a long-term extension of these programs through the end of the year.

A top priority for this Administration is to ensure the continued strength and viability of this important program. Our nation's economy continues to evolve and change, and it is important to examine ways to improve the program and ensure that UI claimants have every opportunity to reconnect to good jobs and career pathways, and improve their ability to reenter the workforce and support themselves and their families. This recession has strained the UI system in several ways:

- States have been challenged with their capacity to manage the huge increase in workload with, in many cases, 1970s-era computer systems;
- New Federal programs were challenging to implement due to the short time-frame for implementation and the complexity of the programs, including the addition of tiers to the EUC program;
- Because many states' benefit reserves were not "recession ready," states' trust funds are depleted and states are borrowing at record levels; and
- Due to claims filing by telephone or over the Internet, many states faced challenges in effectively connecting UI claimants to workforce services delivered through One-Stop Career Centers.

States have done an extraordinary job in rising to these challenges. However, looking to the future of the UI program, we must not underestimate the challenges ahead. It will be important to build on the strengths of the program and to modernize and improve those areas that have not functioned as well.

While I'm focusing on a few key areas today, I want to keep the door open to additional dialogue with the Committee about potential reforms to this critical program.

BACKGROUND

I would like to begin by providing some background information about the scope of the impact of the UI program during this recession. UI measures enacted by Congress, including the UI provisions in the Recovery Act, responded to nearly unprecedented economic problems with historic investments in unemployment insurance, including the longest-running program in history, the

most weeks of assistance in history, the first benefit increase during a downturn in history, and steps to expand UI coverage to the highest proportion of unemployed workers in 30 years.

The UI program has provided benefits to 30.6 million individuals since the recession began in December 2007. For an individual, these benefits are often modest, averaging about \$320 a week. In total, the program has paid \$223.3 billion in benefits including \$139.3 billion in regular benefits; \$65.7 billion in EUC benefits; and \$6.7 billion in EB benefits. The Federal Additional Unemployment Compensation (FAC) program, which adds \$25 to each weekly payment of UI, has added \$11.7 billion in payments. Many state's UI trust fund balances have been depleted, as discussed below. It will take some time to restore positive balances.

Unfortunately, the nation's unemployment rate remains high at 9.7% and, for the twelve month period ending February 2010, 54% of new claimants exhausted their regular UI benefits. Fifteen million people continue to look for work. Long-term unemployment is a challenge as well. Many have simply given up hope of finding a job. According to the Bureau of Labor Statistics (BLS), 44% of unemployed workers have been out of work more than 6 months. A recent analysis by the Pew Fiscal Analysis Initiative reports that 23% (3.4 million people) of jobless workers have been unemployed for over a year. According to BLS data, there are 5-6 workers for every job opening. These statistics clearly indicate our work is not done.

EUC IMPLEMENTATION ANOMALY

Before moving to talk about jobs and getting more UI claimants reemployed, I would like to speak briefly about an implementation anomaly related to the EUC program – the effect of part-time or temporary employment on eligibility. A basic premise of the EUC program – and indeed UI benefit extensions in general – is that the worker has no eligibility for state UI. State UI claims are paid with respect to a 12-month period called a “benefit year.” When EUC claimants reach the end of their state benefit year, states check to see if the claimants can re-establish state eligibility.

Some workers, including those who worked at part-time or temporary jobs after they initially established eligibility for state benefits, discover they are again entitled to a new round of regular state benefits based on this work. Sometimes this results in a considerably reduced weekly benefit amount because the part-time earnings are lower than the earnings used to establish the original claim. Affected workers consider this to be unfair. Their weekly amount is reduced because they returned to work while others who did not obtain work may continue to receive a higher benefit.

This issue also arose in 1992 in a previous emergency extension program. A legislative “fix” was enacted that enabled the worker to choose to either stay on the 1992 emergency program or return to receiving state benefits – we call this the “choice” provision. At that time, states were challenged to implement the “choice” provision, given that it was very difficult and time-intensive to explain the choice to workers, taking into account the ramifications of each choice based on their state’s law and individual claimants’ circumstances. We certainly agree this raises an equity issue and sympathize with the workers involved.

We are aware of several proposals to address this situation. As these proposals are considered, we strongly recommend that state implementation concerns be taken into account in addressing this matter, given the huge administrative burden states already face during this recession.

SHORT-TIME COMPENSATION

The UI program has a component that helps some workers retain their jobs instead of being laid-off. Short-time compensation (STC), popularly known as “work sharing,” allows an employer to reduce the weekly hours of work for all, or a group of its workers, rather than temporarily laying off some workers. Workers receive a pro-rated portion of their weekly benefit amount based on the percentage by which their work week is reduced.

Seventeen states currently operate STC programs (Arizona, Arkansas, California, Connecticut, Florida, Iowa, Kansas, Maryland, Massachusetts, Minnesota, Missouri, New York, Oregon, Rhode Island, Texas, Vermont, and Washington).

The Department believes the benefits of this approach are obvious. Instead of facing a layoff, workers not only retain their jobs, but also do not face a period of unemployment that may cause their skills to grow stale. Employers are spared the need to lay off workers and are able to retain skilled and committed workers. The shared work approach enables employers and workers to both “share the pain” caused by an economic downturn while reaping the benefits already mentioned. Recent numbers speak for themselves as the states with STC provisions report huge surges in STC use. For example, in Rhode Island, the number of STC plans increased fourfold from about 540 in January 2007 to over 2,300 in January 2010. We therefore believe states should be encouraged to adopt these provisions.

Unfortunately, the Department has been limited in its ability to promote STC because of a technical problem with the law. In fact, amendments are necessary to continue operation of current state STC provisions. In brief, UI is a social *insurance* program. It insures workers against the risk of unemployment. The Department has long held that the insurance nature of the program necessarily means that eligibility requirements for UI are limited to those based on the “fact

or cause” of the worker’s unemployment. As a result, states may not, for example, introduce needs or means testing. The STC laws in most states, however, introduce factors that are not related to the “fact or cause” of unemployment. As one example, a state may condition approval of an employer’s STC plan on whether an employer continues health coverage and other benefits. While this is a policy with which we agree, it means the payment of STC is not based solely on whether the individual is unemployed.

A technical fix to Federal law providing an exception to the “fact or cause” requirement would resolve these concerns. Language accomplishing this purpose is contained in our Unemployment Compensation Integrity bill, which we expect to transmit to Congress shortly. Also, Senator Reed of Rhode Island has proposed legislation that would, among other things, address these technical concerns. We are willing to discuss with you whether states – or employers – should be given incentives to participate in this program.

We look forward to working with the Committee to address these issues.

SELF-EMPLOYMENT ASSISTANCE

The UI program can also help encourage entrepreneurship. The self-employment assistance (SEA) program is designed to encourage and enable unemployed workers to create their own jobs by starting their own small businesses. Under SEA, states may pay a self-employment allowance equivalent to the weekly unemployment benefit to eligible jobless workers while they are establishing businesses and becoming self-employed.

To participate in the program, individuals must be eligible for unemployment benefits, have been permanently laid off from their previous job, and have been identified as likely to exhaust benefits. In addition, they must participate in self-employment activities including entrepreneurial training and business counseling. Federal law requires that no more than 5 percent of individuals receiving regular unemployment benefits may participate in a state’s SEA program. The Department recently completed a three-state demonstration to test the effectiveness of providing self-employment services through One-Stop Career Centers. The results showed that UI claimants started businesses at a significantly higher rate than other public workforce system clients.

Eight states currently operate SEA programs (Delaware, Maine, Maryland, New Jersey, New York, Oregon, Pennsylvania, and Washington).

Our understanding is that one of the major reasons why SEA has not become more widely used is that services are not always available for entrepreneurial training and business counseling. We are actively exploring ways to make these services more accessible. We also would be open to ideas on how to encourage more states to adopt SEA programs and to extend SEA eligibility to EUC claimants where state SEA programs are not available.

REEMPLOYMENT STRATEGIES FOR UI CLAIMANTS

UI benefits are a lifeline for jobless workers and their families; however, the best remedy for unemployment is reemployment. A number of studies have found that attention to UI beneficiaries' job search efforts and reemployment needs results in shorter claim durations.

In light of the recent recession, providing reemployment services to UI claimants has taken on even greater importance. The Recovery Act provided additional resources to the workforce investment system to support reemployment services.

As you know, many of today's UI claimants file their claims via Internet or telephone, never setting foot in a One-Stop Career Center. They may not be aware of the array of employment and training services available to them. In response, the Department has focused its attention and resources on better integrating and connecting UI claimants with services delivered through the One-Stop system. The goal is to ensure that claimants have access to the full array of employment and training services through the One-Stop system, while also ensuring that claimants comply with the individual state requirements to actively engage in seeking work as a condition of receiving UI benefits.

The Reemployment and Eligibility Assessment (REA) initiative has been one of ETA's core strategies to improve reemployment outcomes for UI claimants and also reduce improper payments. Thirty-four states are currently operating REA initiatives, 18 of them since FY 2005. In FY 2009, \$39.3 million in REA grant funds was awarded and 16 additional states implemented REA initiatives. A total of \$60 million has been appropriated for REAs in FY 2010 with a \$50 million cap adjustment plus \$10 million in base funding and we anticipate that additional states will implement REA initiatives this year. The 2011 President's Budget includes an increase in funding for REAs with a \$55 million cap adjustment for this program integrity initiative. Projected savings from this initiative are \$210 million for the 2011 investment.

REA grants are awarded on a competitive basis and must be used to assess the continued eligibility and reemployment needs of UI claimants who do not have a definite return-to-work date. Claimants identified for participation in the initiative must report in-person to their One-Stop Career Centers in order to develop a reemployment plan and make key connections to available One-Stop services to support that plan. This program has served 1.5 million claimants to date.

The ability to serve more UI claimants through the workforce investment system was given a significant boost by the Recovery Act, which included a new, major investment of \$250 million to provide reemployment services to UI claimants. These funds were distributed to states by a formula authorized under the Wagner-Peyser Act to supplement existing reemployment services for UI

claimants, and to support integrating employment service and UI information technology to identify and serve the needs of such claimants. These funds have been a critical complement to the REA funding, given that REA funding cannot be used for actual service delivery and have enabled close to 4 million additional UI claimants to receive reemployment services through One-Stop Career Centers.

States report a number of positive outcomes resulting from this funding. In addition to increased capacity to provide more services through One-Stop Career Centers, the funds have resulted in a strengthening of the partnership between state UI programs and One-Stops, transforming the way states assist UI claimants. Many states report improved processes for connecting claimants to services and substantial increases (25 percent or more) in the number of UI claimants engaged in services such as one-on-one career guidance and counseling; assessments and testing to identify transferable skills; job search assistance; soft skill development; and referrals to training, including Workforce Investment Act (WIA)-funded training.

During the course of this recession, training as a reemployment strategy has taken on new importance. While the economy recovers, the workforce system has been able to use WIA funds—both regular and Recovery Act—to refresh and upgrade worker skills and to better position workers to access in-demand jobs as they re-emerge, including jobs in demand sectors such as health care and green jobs. At the same time, investing in worker skill development is building the skilled workforce that employers need in this knowledge-based economy.

The Department has worked collaboratively with states to promote innovative uses of WIA employment and training funds, such as increasing the use of on-the-job training contracts with employers. While this is not subsidized employment, it is subsidized employment training and is an employment-based approach that gets workers into jobs while they are training. The Department recently announced the availability of up to \$90 million in Recovery Act funds for states and their partners to create on-the-job training experiences through National Emergency Grants to help dislocated workers acquire job skills and experiences with the intention that employers will retain them. We have also requested an additional \$500 million for on-the-job training to encourage employers to hire more currently unemployed workers.

In addition, as part of a Presidential initiative announced last May, the Department has also collaborated with the Department of Education and states to help UI claimants gain access to Pell grants to further their education and skill development. States have chosen to expand their “approved training” policies to enable more UI claimants to continue receiving benefits while pursuing training. Millions of claimants were notified of their potential eligibility for Pell Grants. One-Stop and UI staff worked collaboratively with local financial aid representatives, particularly through community colleges, to ensure claimants had access to the best information about both their potential eligibility for Pell Grants and other financial aid as well as their unemployment benefit eligibility.

A final note on strategies for supporting reemployment of UI claimants—the Department is actively working with states and local entities to capture and disseminate reemployment best practices through a Web-based reemployment “community of practice” which features webinars, summaries of policies and practices, and opportunities to interact virtually with practitioners.

While we have made great progress in this area, it remains an area for continuous improvement, and we welcome the opportunity to explore other strategies and mechanisms to more effectively get UI claimants back to work.

SOLVENCY

The UI system was originally designed so that states accumulated reserves during economic expansions. During recessions, those reserves provide income support to unemployed workers and help stabilize the economy. However, as recessions became milder and expansionary periods grew longer, some states lowered their requirements for what constituted an adequate reserve. In the Department’s view, this led to poor decisions for financing benefits. In fact, states entered the current recession with the lowest level of pre-recessionary reserves ever recorded.

This low level of reserves, combined with an extremely high level of benefit outlays and an inadequate level of funding in many states, has created an environment in which states are borrowing—and will continue to borrow—considerable amounts from the Federal government in order to pay UI benefits. As of April 7, 2010, 35 states had borrowed a total of \$39.8 billion from the Federal Unemployment Account (FUA) in the Unemployment Trust Fund. By the end of FY 2010, that amount is estimated to increase to \$57.3 billion. During this recession, we estimate that as many as 40 states will have borrowed at some point with borrowing peaking at around \$90 billion during FY 2013. Repaying advances (or loans) and rebuilding state fund reserves is likely to take some time. In fact, it will probably take so long that we should be concerned about whether the UI system will be ready for the next recession.

The decline in state reserves began in the late 1980s. Generally, state reserves as they entered this recession were lower than at the outset of the previous recession. For example, using a commonly accepted measure called the Average High Cost Multiple (AHCM), 30 states were prepared for the recession of 2001, while only 18 states were prepared for the recession that began in December 2007. If all states were at or above the accepted AHCM level going into the current recession, it is estimated that only 12 states would have had outstanding advances on March 31, 2010, totaling \$6.0 billion. The need for states to borrow funds diminishes the ability of the system to help stabilize the economy, as it triggers benefit reductions or tax increases while the economy is still recovering.

Federal law contains an automatic repayment provision for states with advances that have been outstanding for a certain period of time. Specifically, if a state has an outstanding advance on January 1st of two consecutive years and does not fully repay the advance by the November 10th following the second January 1st, the credit that employers in the state receive on the Federal unemployment tax is reduced. Revenue generated from the reduced credit is applied to the outstanding advance until it is repaid. These credits are decreased annually each time an additional consecutive January 1st has passed without repayment of the advance by the following November 10th. One state has already lost some credit. We anticipate that another two will lose some credit for tax year 2010 and another 23 will lose some credit for tax year 2011.

Normally, states pay interest on advances from FUA. The interest is deposited in the FUA. However, under Recovery Act provisions, interest does not accrue on outstanding advances from February 17, 2009, through December 31, 2010, and any interest due and payable during that period is deemed to have been paid. Beyond that time period, under current law, interest will again be applied on outstanding advances, and states will be required to pay interest from state funds that are *not* generated from the regular state UI tax used for benefit payment.

Two Federal accounts in the Federal Unemployment Trust Fund have been required to borrow as well. As already mentioned, the FUA has had to borrow from the General Fund to supply states with money to pay benefits. In addition, the Extended Unemployment Compensation Account, from which EUC was initially funded and EB continues to be funded, has also had to borrow from the General Fund. As of the beginning of April, these funds had outstanding advances of about \$37 billion and accumulated interest charges of approximately \$450 million. Federal unemployment tax revenues, paid by employers in all states, would pay this interest.

It is clear that solvency of the UI system will be a concern over the next decade. The Department is actively working with states as they rethink their UI financing models and we would be happy to work with the Committee on potential Federal actions to address this issue.

As a final note on this topic, we recognize that program integrity activities assuring proper benefit payments and collection of all employer taxes due are essential for states' attainment of solvency. When States must finance high levels of improper UI payments, employers face higher taxes and workers may see cuts in their benefit levels. Despite the efforts of States to reduce improper payments, over \$11.4 billion in UI benefits were erroneously paid in 2009 – an overpayment rate of 9.6 percent. The President's FY 2011 Budget includes a proposed legislative package – the Unemployment Compensation Integrity Act – that will provide states with new tools and additional resources to prevent and detect improper benefit payments and to collect both improper payments and

delinquent employer taxes. We expect to transmit this proposal to Congress shortly.

CONCLUSION

Thank you for the opportunity to talk to you about the UI program. UI is both a critical and a complex program. I look forward to working further with the Committee as you consider new approaches to program improvement. I will be glad to respond to any questions you may have.

Testimony of Mark Zandi
Chief Economist, Moody's Analytics

Before the Senate Finance Committee

*"Using Unemployment Insurance to Help Americans Get Back to Work:
Creating Opportunities and Overcoming Challenges"*

April 14, 2010

The Great Recession is over, and the economy is again gaining traction, but the job market continues to lag. Businesses are no longer cutting payrolls, but they have yet to resume hiring in a significant way. Unemployment and underemployment, which surged during the recession, remain extraordinarily high and are unlikely to fall meaningfully soon. With continued aggressive monetary and fiscal policy support, the economy and job market should improve further; by this time next year, a self-reinforcing expansion will take hold. Still, it will take three to four years to make up the number of jobs lost during the recession, and four to five years to return to full employment. The unemployment insurance system should remain a key part of the policy response, helping facilitate the return to full employment.

Recession, recovery, expansion

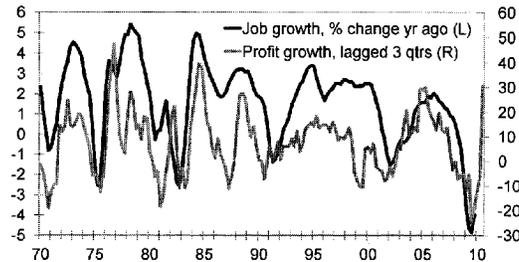
That the Great Recession has given way to an economic recovery is evident in real GDP growth. GDP, the value of all goods and services produced in the economy, expanded at a strong 4% average annualized rate during the second half of 2009 and appears to have risen close to 3% in the first three months of 2010.

The catalyst for the transition from recession to recovery was the unprecedented monetary and fiscal stimulus provided by government policymakers. A wide range of policies helped end the financial panic and stabilize the financial system, a necessary precondition for recovery. Among the most notable of these are the Federal Reserve's various credit facilities, its zero interest rate policy and credit-easing efforts, the Treasury Department's stress tests of the nation's largest bank holding companies and Troubled Asset Relief Program, and the FDIC's increase in deposit insurance limits and guarantees of bank debt. It is also no coincidence that the recession ended last summer, when the fiscal stimulus passed by Congress, the American Recovery and Reinvestment Act of 2009, was providing its maximum boost to GDP. The recovery act's expanded unemployment insurance benefits, financial aid to state governments, tax cuts for households and businesses, and tax credits for home purchases all contributed to the turn in the economy.

The recovery has gained traction in recent months as the sources of GDP growth have broadened to include consumer spending, business investment and exports. The job market has also stabilized. After declining by some 8.4 million jobs between December 2007 and February 2010, payroll employment expanded by 162,000 in March.¹ While this gain was fueled in part by temporary census hiring and a bounce back from unusually bad winter weather, underlying job growth appears to be running near 50,000 per month. Job growth has also spread to more industries, including manufacturing, mining, distribution, transportation, retailing, leisure and hospitality, healthcare, and educational services.

The preconditions for even stronger underlying job growth in the months ahead are falling into place. Most important is the rebound in corporate profits, which has occurred as businesses have successfully lowered their costs. Unit labor costs are falling at their fastest pace on record, fueled by surging productivity and tepid compensation growth. Interest expenses are declining, given corporate deleveraging and low borrowing rates. And rents are down as commercial real estate markets find themselves awash in vacant space. Although firms are constrained in their ability to raise prices, margins have widened; combined with better sales, this has juiced up profits—a necessary precursor to private sector job growth. Historically, the trend in corporate profits has led the trend in U.S. employment by six to 12 months (see Chart 1).

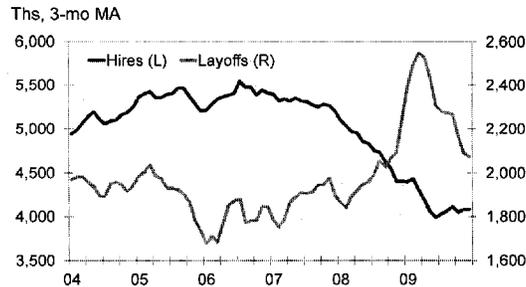
Profits Surge, Jobs Should Follow



Sources: BLS, BEA

Despite these encouraging signs, until businesses resume hiring in earnest and unemployment moves definitively lower, it is premature to conclude that a self-sustaining economic expansion is under way. Indeed, hiring remains dormant. In the first quarter of this year, firms hired an average of nearly 4 million workers per month, down from nearly 5.5 million per month prior to the recession (see Chart 2).ⁱⁱ Without a pickup in hiring, underlying job growth will not accelerate, and unemployment is likely to resume drifting higher. U.S. payrolls need to grow by 125,000 jobs per month simply to stabilize unemployment, given the growth in the population and labor force. Even stronger job growth may be needed in coming months to keep unemployment from rising, since some of the millions of workers who stepped out of the labor force over the past two years will step back in as prospects improve.ⁱⁱⁱ

Hiring Remains Dormant



Source: BLS

There are good reasons to believe hiring will be slow to revive. A lack of credit appears to be short-circuiting job growth, particularly for small and midsize firms that rely on credit cards and small banks for loans. Credit card companies and small banks remain under financial pressure and are pulling back. Lending standards have been tightened significantly, contributing to a sharp decline in the number of credit cards and commercial loans outstanding.^{iv} Smaller businesses account for a surprisingly large share of the nation's job base, and if they are unable to obtain credit to expand, the job machine will not function properly.

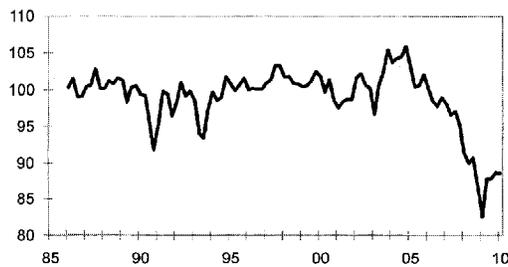
It is unlikely that credit conditions for small businesses will improve soon. Hundreds of the small banks so important to small business lending, particularly in smaller communities, have failed or will fail in the

next couple of years. Some 700 banks are now on the FDIC's troubled list; in many cases, defaulting commercial mortgage loans are overwhelming banks' capital. Credit card lenders are also adjusting to new regulations and have decided to take on less risk. Small business borrowers are also being hampered by the collapse in housing and commercial real estate prices. Real estate is often used by small business owners as collateral for borrowing. With the value of that collateral less certain, lenders are less willing to make loans.

Unusually weak business confidence may also be impeding hiring (see Chart 3). Many businesses suffered near-death experiences during the financial panic and Great Recession, and their managers are not convinced that conditions are strong enough yet to justify expansion. It will take more time than in past business cycles for those risk-taking spirits to return. While major changes to the healthcare system, financial institutions and markets, energy policy, and the tax code are essential, businesses may also be grappling with the uncertainty created by these policy initiatives.

A Dour Mood

Small business optimism index, 1986=100



Sources: NFIB, Moody's Economy.com

Assessing the damage

Even if hiring improves and an expansion takes hold in coming months as anticipated, the Great Recession has severely damaged the nation's labor market. Considering the magnitude and breadth of job losses and rise in unemployment, conditions are arguably as bad as they have been since the Great Depression.⁷

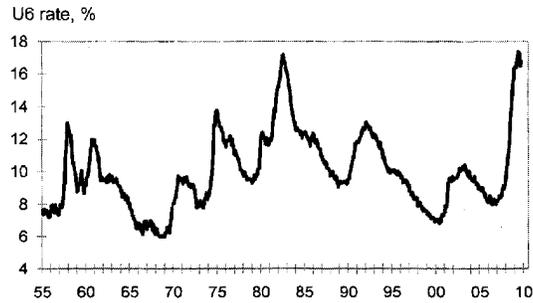
The 8.4 million decline in jobs represents over 6% of the prerecession job base, and the nearly double-digit unemployment rate means some 15 million Americans are looking for jobs. There are nearly five unemployed workers for each available position; normally the ratio is at most one unemployed worker per open position.

For anyone losing a job, moreover, it is extraordinarily difficult to find another. The average length of unemployment is closing in on eight months, and nearly half of those unemployed have been out of work more than the 26 weeks normally covered by unemployment insurance. Even in the early 1980s—the last time unemployment hit double digits—only a fourth of the unemployed were out of work that long. During the worst recession of the 1950s, closer to a tenth of workers were in this difficult position.

The unemployment statistics are bad, but they still understate the stress in the job market. Including those working part-time because they cannot find full-time work, and those who want to work but are not counted as unemployed because they have not looked for jobs in the past month, the so-called underemployment rate jumps to almost 17% (see Chart 4). This represents an astounding 26 million

Americans. On top of that are those whose hours have been cut back; the average number of hours worked per week remains just above record lows.

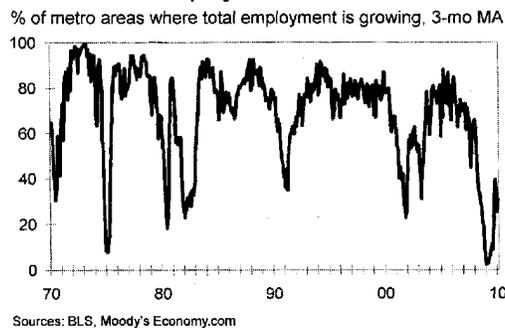
Unprecedented Underemployment



Unemployment remains painfully high across all demographic groups. Shockingly, more than a fourth of teenagers are unemployed, as are 16% of black Americans and more than 12% of Hispanics. The unemployment rate for males between 45 and 54 years old, historically the most stable group in the job market, remains well above 8%. At the worst of the early-1980s downturn, this group briefly suffered a 7% unemployment rate.

The job market also remains difficult from coast to coast. This time last year, meaningful job losses were occurring in more than 90% of the nation's metropolitan areas. Even now, two-thirds of the nation's metro areas are experiencing losses (see Chart 5). In most past recessions, one or two regions avoided the downturn; this time no area of the country has been spared. This has undermined one of the nation's historical strengths: workers' willingness and ability to move.³¹ In the past, a laid-off auto worker from Michigan might relocate to Florida, and a displaced aerospace worker in Southern California could move to Las Vegas. That does not work today; the unemployment rates in Florida and Las Vegas are in the double digits.

Three-month Employment Diffusion Index



The recession's severe job losses erased a decade of U.S. employment growth; not until 2013 are payrolls expected to regain their previous peak. Even this less than sanguine outlook assumes the economy will find other sources of growth, most likely exports of both goods and services. This includes financial and healthcare services, management consulting, architectural and engineering services, and even professional services such as legal and accounting. Making these services globally competitive requires a highly educated and skilled workforce, this nation's comparative advantage.

It will take even longer for unemployment to decline to its full-employment rate—a benchmark that is rising as lengthy unemployment erodes the skills and marketability of more American workers. Those in their late 40s and 50s face particular difficulty getting back into the workforce. The estimated full-employment unemployment rate has already risen from below 5% prior to the Great Recession to nearly 5.5% now and could go even higher unless unemployment begins to decline soon. Assuming job growth performs as expected, unemployment will not fall back to a rate consistent with full employment until 2014.

Given the considerable risks remaining and prospects that unemployment will remain high for years, it is appropriate for policymakers to remain focused on further steps to support the job market. The recently passed job tax credit should prove helpful later this year.^{vii} Additional financial aid to hard-pressed state governments facing large budget shortfalls would also mitigate some of the job cuts that have already begun to occur. Empowering the Small Business Administration to extend more support to small-business lending would help to jump-start hiring.

Extend unemployment insurance

It is also important that policymakers provide emergency benefits to those who will lose their jobs this year. No form of the fiscal stimulus has proved more effective during the past two years than emergency UI benefits, providing a bang for the buck of 1.61—that is, for every \$1 in UI benefits, GDP one year later is increased by an estimated \$1.61 (see Table 1).^{viii}

Fiscal Stimulus Bang for the Buck	
<i>Source: Moody's Economy.com</i>	
	Bang for the Buck
Tax Cuts	
Nonrefundable Lump-Sum Tax Rebate	1.01
Refundable Lump-Sum Tax Rebate	1.22
Temporary Tax Cuts	
Payroll Tax Holiday	1.24
Job Tax Credit	1.30
Across-the-Board Tax Cut	1.02
Accelerated Depreciation	0.25
Loss Carryback	0.22
Housing Tax Credit	0.90
Permanent Tax Cuts	
Extend Alternative Minimum Tax Patch	0.51
Make Bush Income Tax Cuts Permanent	0.32
Make Dividend and Capital Gains Tax Cuts Permanent	0.37
Cut in Corporate Tax Rate	0.32
Spending Increases	
Extending Unemployment Insurance Benefits	1.61
Temporary Federal Financing of Work-Share Programs	1.69
Temporary Increase in Food Stamps	1.74
General Aid to State Governments	1.41
Increased Infrastructure Spending	1.57
Low-Income Home Energy Assistance Program (LIHEAP)	1.13

Note: The bang for the buck is estimated by the one-year dollar change in GDP for a given dollar reduction in federal tax revenue or increase in spending.

This economic boost is large because financially stressed unemployed workers spend benefits quickly, as opposed to saving them. This was particularly important during the depths of the recession when consumers had aggressively cut spending. While consumer spending has since notably improved, it remains fragile and would likely weaken again if emergency UI benefits are not extended. The recovery would struggle to evolve into an expansion as anticipated.

Consumers' dour moods reinforce this concern. While surveys of consumer confidence show improvement over the past year, they are not much higher today than in the depths of the past recent recessions. If large numbers of unemployed workers begin running out of UI benefits this spring and summer, consumer sentiment could sink further. Attitudes would sour not only among the unemployed but also among their relatives, friends and neighbors, as they worry more about their own situations.

Policymakers should also consider extending states' ability to borrow interest-free from the federal government to meet their UI obligations. More than 30 states and local jurisdictions have together borrowed more than \$35 billion from the federal government to pay state unemployment compensation. The largest of these debts are owed by California, Michigan, New York, Pennsylvania, Ohio, North Carolina, Illinois, Texas, Indiana and New Jersey. The Labor department projects that 40 states will need to borrow from the federal government before the end of this year. It would also be helpful to waive penalties for the non repayment of these loans for a longer period. Without such relief, states will be forced to raise payroll taxes at just the wrong time for the economy.

TANF emergency fund

Policymakers should also consider extending and providing additional funds for the TANF Emergency Fund. Created by the Recovery Act, this fund is set to expire on September 30, 2010. The timing is particularly inopportune given that unemployment will likely still be in or near double digits, and more workers will have exhausted their benefits. Extending the program for another year until unemployment is clearly moving lower seems appropriate.

Over half of the nation's states have used the TANF emergency fund to establish new, or expand, subsidized employment programs, and some 39 states are using the fund to provide either basic cash support or short-term assistance to poor families with children. A range of jobs are being subsidized, including summer jobs for low-income youth and transitional jobs to help new or returning workers gain experience and establish relationships with employers.

The states' ability to use the fund to create jobs has been somewhat impaired, however, by a requirement that states put up 20% of any job subsidy. Given their own daunting fiscal problems, states have difficulty coming up with even a 20% contribution. Increasing the federal contribution to 90% or even 100% would significantly increase the use of the fund to support job creation.

Without congressional action soon on the TANF emergency fund, many states will begin to significantly scale back their job subsidy programs this spring. Fiscal 2011 state budget shortfalls are likely to be as severe as last year, when states received substantial federal aid. States are thus in no financial position to continue these programs. Many will likely also be forced to make TANF cuts soon.

Disincentives for intermittent work

Under current law, workers receiving federal emergency benefits are required to turn back to state benefits if they take temporary or part-time work, even if the state benefits are less. This is a significant disincentive to work, and it should be addressed by allowing unemployed workers to maximize their benefits even if they take temporary or part-time jobs. In most cases, workers would first exhaust their federal benefits and then their state benefits. This change would provide incentives for more work, ensure that workers receive maximum benefits, and provide relief to hard-pressed state UI trust funds.

Work-share programs

The wider adoption of work-share programs, also called short-term compensation, would help address persistent stresses in the job market. The 17 states that have work-share programs have successfully averted many layoffs, saving more than 165,000 jobs, up from 58,000 in 2008.

Work share programs have mitigated unemployment in a number of European countries. A good example is Germany, where real GDP declined almost 6% peak to trough during the recession, but unemployment rose only modestly to near 8%. U.S. real GDP declined about 4%, yet unemployment has risen by over 5 percentage points to nearly 10%. A number of factors explain the differences, but the wider use of work share in Germany is an important one.

Work share allows employers to reduce employees' hours for a period of time, with prorated unemployment benefits lessening the financial impact on workers' incomes. Work share is especially helpful for firms that expect workforce reductions to be temporary, allowing them to avoid the cost of severance, rehiring and training. It also helps maintain employee morale, allowing workers to keep health insurance and retirement benefits. For these reasons, the estimated bang for the buck from work share is \$1.69, even higher than emergency UI benefits.

To encourage the wider use of work share in the U.S., federal policymakers should consider startup grants for programs in states that do not currently have them, funding additional administrative costs and letting the Labor Department provide technical assistance to states that develop such programs. Providing temporary financing to states to fund work-share benefits, perhaps up to 26 weeks, would also jump-start broader adoption.

Successful work-share programs have developed a number of practices that increase their effectiveness. One key is letting employers include work-share payments in workers' regular paychecks, rather than making workers file separate claims with unemployment insurance offices. Another is allowing employers to set the appropriate reduction in hours for individual employees, rather than imposing blanket cuts across a workforce. Still another is letting employers adjust their work-share arrangements as circumstances change, as they inevitably do. It is also important that work experience under work share be counted in determining workers' eligibility for full unemployment benefits. Work share can also be more effective if combined with training to ensure workers are using their additional down time effectively.

Self-employment assistance

The unemployment insurance system can also be used to promote entrepreneurship, by expanding self-employment assistance programs. Currently, only seven states participate in such programs, which help unemployed workers create their own new jobs by paying them a self-employment allowance instead of regular UI benefits. Participants receive weekly allowances while they get their businesses going. Recipients must be eligible for regular UI, permanently laid off from their previous job, and identified through a state profiling system as likely to exhaust their UI benefits. Individuals can receive benefits even if they are engaged full-time in self-employment activities such as entrepreneurial training, business counseling and technical assistance.

Cost considerations

The cost to the federal government of providing the additional UI benefits outlined here are substantial, totaling as much as \$70 billion this year. The largest cost involves the extension of emergency unemployment insurance benefits, though the exact amount will depend on the severity and average length of joblessness over the coming months.

These costs will add to what will likely be another record budget deficit this fiscal year of close to \$1.5 trillion. The nation's debt-to-GDP ratio will rise to approximately 65%, the highest debt load since just after World War II. Given this disconcerting fiscal situation, it would be desirable if the costs of the UI benefits were paid for, not now but in the future once the economic expansion is in full swing. This would

send a strong signal to the buyers of U.S. Treasury debt that we are serious about addressing our fiscal problems, and thus help keep long-term interest rates from rising significantly near term. Continued low interest rates are important to ensure that an economic expansion takes hold.

Having said this, the greater immediate risk is not that long-term interest rates will rise too high, but that hiring and job growth will fail to revive as anticipated.^{ix} Costs to taxpayers will be measurably greater if the economy does not turn the corner to expansion but instead retreats back into recession. With the unemployment rate already near double digits, a deflationary cycle of falling wages begetting falling prices, leading to more wage cuts, could well take hold. At that point, policymakers will have no good response, given the 0% federal funds rate and the federal government's rapidly eroding balance sheet.

The economy has made significant strides in the last year. Just about a year ago, major financial firms were disappearing and the economy was in free fall. Yet the proverbial coast is not clear. The Great Recession has given way to recovery, but with firms still reluctant to add to their payrolls and unemployment so high, it will take more policy help to ensure a self-sustaining economic expansion takes root.

ⁱ Based on more recent unemployment insurance records, forthcoming revisions to the payroll employment data will likely show that closer to 9 million jobs were lost peak to trough during the recession.

ⁱⁱ This is based on the BLS's job openings and labor turnover survey. Net job growth equals the number of workers hired less the number of layoffs, quits and other separations.

ⁱⁱⁱ Economic conditions were of course much worse in the 1930s, when unemployment topped 25%.

^{iv} The tightening in lending standards is evident from the Federal Reserve's quarterly survey of senior loan officers at major financial institutions. The Fed asks respondents whether they have tightened their underwriting or increased their loan spreads in the last quarter. Recent responses indicate that fewer lenders are tightening further, but there is no indication they have eased after the extreme tightening that occurred during the past two years.

^v According to the household survey, some 2.8 million unemployed workers left the labor force altogether in March. In March 2007, prior to the recession, less than 1.8 million workers made the same move. Some will never seek active employment again, but others will return to the labor force as their own financial needs grow or as new job opportunities arise.

^{vi} Also curtailing labor mobility is the situation of an estimated 15 million homeowners whose equity in their homes is negative. To move, someone whose mortgage debt exceeds their home's value must either raise cash, persuade the lender to accept a short sale, or default.

^{vii} An assessment of the job tax credit and other similar proposals is provided in "Jump-Starting the Job Market: How Well Will a Job Tax Credit Work," Mark Zandi, *Regional Financial Review*, February 2010.

^{viii} The bang-for-the-buck estimates are based on simulations of the Moody's Analytics econometric model of the U.S. economy.

^{ix} Long-term rates are unlikely to rise significantly as long as the private sector continues to deleverage. According to the Federal Reserve's Flow of Funds, total economy-wide borrowing, including record federal government and municipal borrowing, is essential zero.

COMMUNICATIONS

Hearing Before the Senate Committee on Finance
Using Unemployment Insurance to Help Americans Get Back to Work:
Creating Opportunities and Overcoming Challenges
April 14, 2010

Statement of
Peter J Alice

Dear members of the Senate Committee on Finance,

Don't just extend the EUC and Fed-State EB Programs, please add additional weeks to each of the tiers within each program,- to allow an expansion of unemployment compensation benefits.

Due to the joint statement made by Mr. Geithner, Mr. Orszag and Ms. Romer before the House Appropriations Committee, it is just as imperative now as it ever was to sustain a life line to ALL unemployed workers of America.

Referencing a Bloomberg.com article:

www.bloomberg.com/apps/news?pid=20601087&sid=aXaMufrB.FA0

Obama Aides See Jobless Rate Elevated for 'Extended Period'

by Rebecca Christie and Mike Dorning

"The proportion of Americans who can't find work is likely to "remain elevated for an extended period," Treasury Secretary Timothy F. Geithner, White House budget director Peter Orszag and Christina Romer, chairman of the Council of Economic Advisers, said in a joint statement.

The officials said unemployment may even rise "slightly" over the next few months as discouraged workers start job-hunting again.

"We do not expect further declines in unemployment this year," the officials said in testimony prepared for the House Appropriations Committee. They predicted the economy would add about 100,000 jobs a month on average -- not enough to bring the jobless rate down substantially. "

Referencing a Hearing Before the Senate Committee on Finance on April 14, 2010:

The Witness Testimonies of Jane Oates, Doug Holmes, Karen Lee and Mark Zandi presented at the "Using Unemployment Insurance to Help Americans Get Back to Work: Creating Opportunities and Overcoming Challenges" hearing predict months, if not years of hardship for anyone who has already exhausted the current system of State and Federal unemployment compensation benefits.

At most, the use of the Unemployment Compensation programs to attain some form of social welfare and dignity for Unemployed Workers in this country is a disgrace. Delays in life lines and the transformation of hard working Americans into homelessness is something no government should be proud of. Yet some leaders wear it as a badge of honor under the pretence of saving our financial system, fighting wars and deficit reduction,- while the fat cats on Wall Street, and in the banking and insurance industries continue to dole out million dollar bonuses on the backs of the U.S. tax payers.

The plight of Unemployed Workers who have exhausted all benefits and personal assets,- who once contributed to what made our country great, have been robbed, cheated and kicked to the curb. And now their only hope is to beg and plead for some kind of pittance from those who contributed to their demise. We've been reduced to nothing and hold our hands out in despair.

Please I beg and plead, if that's what it takes.-- Give a dog a bone. Buddy can you spare a dime. What do you need us to do? What do you need us to say? If you can't see us, your eyes and hearts have deceived you.

We need these life lines. Please increase the number of weeks of benefits to each Tier of the Emergency Unemployment Compensation and Federal-State Extended Benefit programs to get ALL of us through our depressions.

Please keep in mind that some of us, who had very small initial unemployment compensation claims, which both programs are based on, only get half of the advertised weeks allowed in each tier.

I, like many who were hit the earliest and the hardest by this recession, had new regular benefits from an Under-employed job disqualifying me from receiving EUC and Fed-State EB benefits based on a maximum regular unemployment compensation claim. Senate Amendment 3434 to H.R. 4213, which was submitted, and found some support, would have corrected this discriminatory practice.

In closing, please allow us to live with some dignity, as provided for by the foundation of the Social Security Act of 1935, under which both of the EUC and EB programs reside.

We all understand the need and importance of getting unemployed workers back to work. But any job bill will take months, possibly years to get us all back to work again.

We need immediate life lines now!

Please increase the number of weeks of benefits to each Tier of the Emergency Unemployment Compensation and Federal-State Extended Benefit programs.

Please take the bold steps necessary to acquire new legislation more fitting to our circumstances.

We need some type of Long-Haul Life-Line Legislation.

If you were in my situation you wouldn't think the following suggestions were absurd. This legislation would provide Life-Line payments to all who were unemployed thru no fault of their own until the Total Unemployment Rate got back down to a predetermined level. The legislation would include avenues for training, recurrent training, relocation assistance, OJT and self-employment programs, etc. to help us get ourselves back to work. None of the programs should require anyone to go into debt to get re-employed. I'm 52 years old and financially drained. Age discrimination is rampant. I haven't worked since June of 2008. I've sent out hundreds of resumes and filed hundreds of employment applications to no avail.

The Unemployment Compensation Program was never intended to handle our situation, resulting from the economic meltdown.

Thank you for your attention in this matter.

A handwritten signature in black ink, appearing to be 'R. J. ...' with a stylized flourish at the end.



**Statement of Colleen M. Kelley
National President
National Treasury Employees Union**

On

**“2010 Tax Filing Season and the Internal Revenue Service
Budget Request for FY 2011”**

Submitted to

Senate Finance Committee

April 15, 2010

Chairman Baucus, Ranking Member Grassley, and distinguished members of the Committee, I would like to thank you for allowing me to provide comments on the 2010 Tax Filing Season and the Administration's FY 2011 budget request for the Internal Revenue Service (IRS). As President of the National Treasury Employees Union (NTEU), I have the honor of representing over 150,000 federal workers in 31 agencies, including the men and women at the IRS.

IRS FY 2011 Budget Request

Mr. Chairman, NTEU strongly supports the Administration's FY 2011 budget request of \$12.6 billion for the IRS, a 4 percent increase of \$487 million over the FY 2010 level. We believe that the President's request will allow the IRS to continue helping taxpayers meet their tax obligations while also improving enforcement of the tax law.

We are particularly pleased the Administration's budget request would provide critical increases for Service enforcement and taxpayer service activities, and would allow the IRS to continue efforts to rebuild its workforce which is still down by almost 20,000 since 1995.

I would also note that in previous years, NTEU has supported the budget recommendations proposed by the IRS Oversight Board which have generally called for additional resources above that requested by the Administration. While we have not seen the specific details of the Board's proposal, we would be inclined to support providing additional funding for the IRS above the Administration's request and look forward to reviewing the Board's recommendation.

Taxpayer Services

Mr. Chairman, helping taxpayers understand their tax reporting and payment obligations is the foundation of taxpayer compliance. Through a variety of channels, the IRS is able to provide year-round assistance to millions of taxpayers, including outreach and education programs, issuance of tax forms and publications, rulings and regulations, toll-free call centers, the IRS.gov web site, Taxpayer Assistance Centers (TACs), Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites. These efforts have enabled the IRS continue raising the standard of service to America's taxpayers and assisted in efforts to improve voluntary compliance.

The IRS' comprehensive approach to taxpayer service played a critical role in allowing it to deliver a successful 2009 filing season, despite dealing with a number of difficult challenges posed by the residual effects of the 2008 Economic Stimulus Payment program and implementation of the American Reinvestment and Recovery Act. During this time, IRS employees processed more than 144 million individual returns and issued 111 million refunds, totaling \$339.6 billion; answered almost 39 million calls from taxpayers requesting information on new credits available to them; and helped more than 6.2 million taxpayers at the 401 Taxpayer Assistance Centers located around the country. And while these numbers show that employees providing taxpayer services are helping taxpayers understand and meet their tax responsibilities, more can and should be done.

We were happy to see the Administration's request of \$2.3 billion for taxpayer services acknowledges the good service that IRS employees provided to taxpayers in FY 2009 while also recognizing that additional progress can be made. In particular, we strongly support the \$20 million in additional funding to improve telephone level of service.

As you know, demand for telephone service remained extremely high in FY 2009 as taxpayers called to obtain information regarding economic stimulus payments and new Recovery Act credits. The significant increase in call demand stressed existing resources which negatively impacted the level of service. But despite the high call volume, IRS achieved a 70% level of service and maintained account and tax law accuracy rates of over 93%.

NTEU strongly believes providing quality services to taxpayers is an important part of any overall strategy to improve compliance and that the President's request for taxpayer services will enable the IRS to deliver another successful filing season, improve the responsiveness and accuracy of taxpayer service, and support Service efforts to enhance taxpayer compliance.

Enforcement

Mr. Chairman, NTEU believes a strong enforcement program that respects taxpayer rights, and minimizes taxpayer burden, plays a critical role in IRS' efforts to enhance voluntary compliance and reduce the tax gap.

That is why NTEU was happy to see the Administration's budget request would provide a \$293 million increase in funding for IRS tax enforcement above the FY 2010 level, including additional resources made available through a program integrity cap adjustment.

A large portion of this increase will be invested in strengthening current Service compliance programs designed to close the tax gap by combating offshore tax evasion, expanding enforcement efforts on noncompliance among corporate and high-income taxpayers, and addressing underreporting of income associated with international activities. These investments are expected to generate \$1.9 billion in additional annual enforcement revenue, resulting in a return on investment (ROI) of more than 9 to 1, once new hires reach full potential in FY 2013. This estimate does not account for the deterrent effect of IRS enforcement programs, estimated to be at least three times larger than the direct revenue impact.

Mr. Chairman, NTEU strongly supports targeting additional resources to programs that would help close the tax gap. In addition to generating additional revenue for the federal government, reducing the tax gap will help strengthen public trust in the fairness of the tax system which will positively impact voluntary compliance with tax laws.

Section 1203

Mr. Chairman, while meaningful funding for the IRS is important to operations, NTEU also believes that in order to maximize efficiencies at the IRS, Congress must act to modify Section 1203 of the IRS Restructuring and Reform Act of 1988 (RRA 98). Commonly known as

the "Ten Deadly Sins," Section 1203 outlines ten infractions for which IRS employees must be fired, including the untimely filing of federal income taxes even when a refund is due. No other federal or congressional employee is subject to similar mandatory termination.

Without question, Section 1203 has had a negative impact on the morale of the IRS workforce and is impeding the ability of the IRS to perform its mission. According to numerous GAO reports, IRS employees greatly fear the threat of being fired under Section 1203. This in turn has had a chilling effect on the ability of IRS employees to do their jobs. In particular, employees specifically attribute the decrease in recommending a seizure of taxpayer's assets to Section 1203. Clearly, Section 1203 impedes IRS' enforcement mission and is unfair to the IRS employees who must work under the constant threat of losing their jobs.

NTEU believes mandatory termination for Section 1203 violations is unduly harsh and should not be the only disciplinary action available. We advocate amending RRA 98 to allow for appropriate penalties other than mandatory termination for Section 1203 violations and to allow for independent review of determinations.

To be clear, NTEU does not condone any violation of law or rules of conduct by its members at the IRS or in any other government agency. Violations of some rules clearly warrant termination of employment. However, one group of federal employees should not be singled out and required to be fired for offenses that do not subject other executive, judicial, or legislative branch employees to the same penalty.

Mr. Chairman, the large majority of IRS employees work hard, follow the rules and pay their taxes on time. It is patently unfair to hold those who are charged with enforcing the tax laws to a higher standard than those who write them. NTEU asks for your support for changes to section 1203 of the IRS Reform and Restructuring Act, so that tax fairness applies to all Americans, even those who work at the IRS.

Security at the IRS

Mr. Chairman, in light of recent events, I would also like to reflect for a moment on the issue of safety and security of IRS employees. As you know, on Thursday, February 18, in what authorities believe was an intentional attack, a pilot crashed his small plane into a building housing almost 200 IRS employees in Austin, TX. The attack, in which one IRS employee perished and several others were seriously injured, serves as a grim reminder of the great risk that the men and women of the IRS face each and every day in service of this country. I know the subcommittee joins with NTEU in sending our condolences to the family of the fallen IRS employee and to all those affected by this senseless tragedy.

Mr. Chairman, as the Federal inventory of buildings has steadily increased over the last 30 years, the uniformity and implementation of security standards have varied greatly. Prior to 1995, minimum physical security standards did not exist for nonmilitary federally owned or leased facilities. But even with established minimum safety standards, security at federal facilities can vary greatly from agency to agency and even from building to building.

This is particularly true for agencies like the IRS, which must offer public access to provide customer service. The IRS is widely dispersed with approximately 755 facilities throughout the nation. These facilities can range from one-person offices to large tax return processing campuses with thousands of employees. There are also different tenant sharing arrangements at these facilities, from being housed as an IRS-only office to sharing building space with other Federal agencies and other private companies. In buildings where the IRS is not the lead agency or tenant (i.e., the largest organization in the building) the IRS must propose changes through a building security committee.

NTEU members have consistently voiced concern over the inconsistency of safety and security measures at IRS facilities across the county, in particular, at facilities like Taxpayer Assistance Centers (TACs) which must offer public access in order to provide customer service. In many instances, there is an absence of any type of security presence at these TACs, which has heightened fears among employees that they are particularly vulnerable to threats and attacks.

Unfortunately, IRS has been slow to recognize the importance and necessity of providing a security presence at all IRS facilities. In fact, just recently, in the face of strong opposition by NTEU and our members, the IRS was forced to abandon an initiative to "standardize" its use of contract guards and dogs at various locations across the U.S., which would have resulted in the elimination or reduction of guard service at 42 posts. While NTEU was successful in fighting this planned reduction of guard services, many IRS facilities remain woefully unprotected. According to IRS, of the roughly 755 IRS facilities located nationwide, just 275, or 36%, have some type of security detail. Thus, 480 IRS facilities, roughly 64%, are without any security presence whatsoever. This is clearly unacceptable.

Mr. Chairman, the absence of adequate security at IRS locations is just one of many security related concerns reported by NTEU members in recent years, which also include: IRS taxpayer walk-in centers without metal detectors, or operational, monitored security cameras; insufficient perimeter lighting; inoperable security equipment; parking areas without security camera coverage; security service spread thin by guards required to leave their posts and patrol loading docks during deliveries; security devices ordered but uninstalled due to inadequate funding; malfunctioning security cameras, security gates and magnetometers; IRS walk-in centers with only cipher locks on the front doors; open loading docks without a security presence; excessive waits for security personnel arrival after making an emergency call; security cameras discovered to not have film after a robbery; and inoperable fire alarms.

As you can see, IRS workers' concerns about the heightened risk of threats and attacks at IRS facilities, in particular, at those which must offer public access in order to provide customer service, are not unfounded.

Mr. Chairman, I would like to state my appreciation to IRS Commissioner Shulman and Treasury Secretary Geithner for their efforts in the aftermath of the Austin IRS attack and I am hopeful that we can build on those efforts to improve worker safety at the IRS.

NTEU Recommendations

In an effort to help IRS minimize the threat of violence against IRS employees as they administer the Internal Revenue Code, NTEU proposes the following recommendations:
(1) IRS undertake a comprehensive review of safety and security measures at all IRS facilities;
(2) ensure IRS employees have access to any and all information on those individuals that could pose a threat; (3) grant law enforcement officer (LEO) status to IRS Revenue Officers.

Comprehensive Review of Safety and Security Measures at all IRS Facilities

In light of recent events and ongoing concerns by IRS employees about their safety and the security of IRS locations, NTEU believes that IRS should immediately undertake a comprehensive review of safety and security measures at all IRS facilities around the country. In particular, IRS should review the current established physical security standards and requirements for the protection of Service facilities and personnel. The review should consider whether or not each facility has, among other things; the proper risk assessment security level designation; sufficient entry control systems, including guard or other armed presence and magnetometers; sufficient perimeter security, exterior lighting, proper designation of restricted areas, and operable security equipment.

We also believe that to the greatest extent possible, IRS should solicit the participation by IRS employees themselves in the review as they may be able to offer a unique perspective on the problems and challenges associated with securing IRS facilities, its employees, as well as the taxpayers who frequent them.

Input from employees on the front lines can be particularly helpful as the security needs at IRS facilities can vary greatly, depending on their mission, size, etc.

As the Internal Revenue Manual notes, in order to ensure that a Post of Duty (POD) is properly protected, careful planning is necessary to ensure that appropriate protective measures are in-place and tailored to the facility's specific mission, threat, and functional requirements. PODs may vary greatly in size and function, so each requires close examination for tailored security countermeasures. The function of the office, the type of records maintained, the equipment in the POD, the size, population, if visitors frequent the facility, etc., are all determining factors to consider when planning security.

Mr. Chairman, NTEU believes that it is important for IRS employees to feel safe and secure in the workplace as they carry out their duties and stands ready to work with the IRS to ensure the proper safeguards are in place to ensure the safety of IRS employees.

Ensure IRS Employees Have Access to Information

As you may know, the IRS Restructuring and Reform Act of 1998 (RRA 98) required the IRS to stop designating taxpayers as Illegal Tax Protesters (ITP) or any similar designation. This ITP designation was used previously by the IRS to identify individuals and businesses using methods that were not legally valid to protest the tax laws. The designation was also intended to alert employees to be cautious so they would not be drawn into confrontations with potentially

dangerous taxpayers. Congress decided to require IRS to drop the ITP designation over concerns that the label could bias IRS employees and result in unfair treatment of the taxpayer.

While the ITP designation was abolished, RRA 98 did provide IRS the authority to implement additional procedures, such as the maintenance of appropriate records, in connection with this provision so as to ensure IRS employees' safety.

NTEU believes it is critical that IRS ensure that any and all information relevant to employees' safety will always be available to them.

LEO Status for Revenue Officers

NTEU is very concerned about the level of threats and violence against IRS employees, and in particular, against Revenue Officers (ROs), who often must meet with taxpayers on a one-on-one basis in the course of conducting their investigations.

According to the IRS, between 2003 and 2007, RO's reported more than 480 cases involving Potentially Dangerous Taxpayers (PDTs), a designation assigned to taxpayers who have demonstrated a capacity for violence against employees of the IRS, contractors or their families, and Caution Upon Contacts (CAUs), defined as those incidents that posed a less immediate and less serious threat.

This report comes at a time when the threat of violence against Federal employees is receiving increased attention and anti-government sentiment remains at an all-time high.

But despite these startling figures, ROs are not authorized to carry and or use firearms in performance of their official duties and are forced to request assignment of an armed escort to ensure their own safety. According to TIGTA, it expects the necessity for armed escorts to increase over time as the IRS places additional focus on collection and enforcement activity.

NTEU strongly believes that the high number of threats and assaults recently reported by TIGTA once again illustrates the clear need for RO's to be granted LEO status. That is why NTEU strongly supports H.R. 673, the "Law Enforcement Officers Equity Act," which would grant law enforcement retirement benefits to ROs at the IRS. These officers face dangerous situations as they enforce the United States Tax Code and collect delinquent taxes. Most people see these individuals as law enforcement officers, and many have reacted to their inquiries with threats, assaults, and in some cases gunfire. Yet, these men and women are being denied the rights and benefits of their colleagues who are considered to be law enforcement officers.

While some in the government have expressed concern that legislation providing coverage for these officers would have a negative impact on personnel costs for government agencies, this argument is fundamentally flawed. Granting LEO status to ROs will actually decrease personnel costs by increasing morale and officer retention, thus decreasing the costs associated with training new officers.

NTEU asks members on the subcommittee to support this critical legislation that will enhance the safety and security of Revenue Officers as they carry out their tax enforcement mission.

Conclusion

Mr. Chairman, thank you for the opportunity to provide NTEU's thoughts on the Administration's FY 2011 budget request for the IRS. We believe that by investing in demonstrably effective enforcement and taxpayer service programs, the Administration's request will ensure the IRS continues to meet its mission of providing America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

