

Increasing Unemployment Insurance System Solvency Must Not Undermine Job Creation

Written by Grassley Press
Thursday, 15 April 2010 07:41

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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.

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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.

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