



Wall Street Journal Supports the JOBS Act (HR 1745)

The Wall Street Journal supports the JOBS Act of 2011 in a new editorial. The WSJ notes that

Unemployment insurance is primarily the charge of state governments, but lately it has developed into an unhealthy relationship with Washington that has become unaffordable. To restore some balance, Republicans in Congress are proposing to give states more flexibility in how they spend federal unemployment dollars. Democrats call the plan an end to federal unemployment subsidies as most people know them. If only.

In the 1930s the federal government established a loose framework for jobless insurance that gives states leeway to determine their own tax rates, eligibility and benefits. Most states provide 26 weeks of benefits, which are funded by state payroll taxes on employers. During periods of high unemployment, states are required by federal law to extend benefits by another 13 weeks. The federal government typically funds half of these extended benefits.

As part of the 2009 stimulus bill—the source of so much fiscal mayhem—Congress agreed to subsidize all 13 weeks of extended benefits and gave states \$7 billion to expand their eligibility. That was a Faustian bargain because states will have to pay more benefits over the long run for all of the new individuals that they've added to their rolls.

Congress has since funded an additional 60 weeks of "emergency" benefits, for a total of 99 weeks. The most Congress had previously extended benefits was up to 33 weeks during the early 1990s. The catch is that states now can't reduce their weekly benefit amounts or eligibility. So the only real options for states whose unemployment trust funds are running dry is to take out loans or raise taxes on employers. Roughly 30 states have done the former, but the way that the unemployment system works has made higher taxes nearly inevitable.

If states don't pay down the principal on their loans within about two years of their loan's origination—which is this year for most states—the system requires the feds to raise employer payroll taxes by 0.3% each year that a state's loan is left outstanding. Employers in 22 states will likely see their taxes rise this year, which means less incentive to hire even as the jobless rate is still 9.1%.

That's where the GOP's Jobs Act would help. The bill would let states use the remaining \$31 billion of the \$56 billion in unemployment benefits that Congress appropriated last year for other purposes like paying off their federal loans or reducing employer taxes. Imagine that—a jobs bill that actually promotes jobs. States with high unemployment could continue to spend the funds on benefits, but they would no longer be required to do so.

Meanwhile, more evidence has arrived that jobless subsidies are a disincentive work. A recent report by Chicago Federal Reserve economists LuoJia Hu and Shani Schechter indicates that benefit extensions account for a roughly 1% increase in the unemployment rate. They calculate that between 10% and 25% of the recent decline in unemployment is due to people exhausting their benefits. Allowing the extended emergency benefits to expire, they conclude, could help reverse their adverse effects on employment.

The jobless subsidies for this year have already been appropriated, so the best Republicans can do is let extended benefits sunset at the end of this year and let states put the appropriated money to more productive uses. Then get on with the task of stopping job-killing government policies.

A link to the article can be found at

http://online.wsj.com/article/SB10001424052702304066504576343734042298022.html?mod=googlenews_wsj