

## Testimony before the House Committee on Technology, Economic Development, and Workforce

by The Honorable  
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Fiscal Policy

Good morning Chairman Strama and Committee Members. I am Talmadge Heflin, Director, Center for Fiscal Policy, at the Texas Public Policy Foundation.

Brooke Terry laid out the guiding principles of TPPF and gave you a big picture view of what we believe is important for growing a healthy economy, economic development, a strong workforce and a desirable place for individuals to live, start and grow their companies. I will add one thing to the list relating to taxes; predictable tax policy. We believe that is important for companies as they make decisions affecting their future, especially long range planning.

That brings me to the issue of Unemployment Insurance (UI), a significant cost to many employers. I believe our current laws are working very well in that area and there is little or no need to make changes to these laws; except, we now have on the horizon the promise of federal funds coming in the form of “stimulus funds”. Sounds good on the surface, but when you look under the cover sheet you see that certain changes must be made in state law to receive them.

Under current Texas law, claimants last four quarters of wages are evaluated to determine if they are eligible for unemployment payments. According to an analysis provided by the National Association of State Workforce Agencies, the stimulus package appears to require that states allow a UI claim if the last quarter of wages would have made them eligible. This change is tied to one third, almost \$180 million, of the UI funds and must be made first before the state is eligible for the remaining two thirds of the \$530 million of UI funds.

The rest of the funds are tied to making at least two of four other changes:

- Allow a person to receive unemployment payments if they are looking for part-time work rather than full-time work as current Texas law requires.
- Allow immediate eligibility for a person if they quit their job to relocate with their

spouse; current Texas law requires them to wait six weeks.

- Continue benefits for a claimant whose eligibility has expired but is making satisfactory progress in a TWC approved job training program.
- Provide weekly allowances of at least \$15 per dependent.

As you can see the first four changes have the potential of adding more people to the number receiving unemployment benefits and the last is a direct increase in benefits.

When federal funds are exhausted, all of the changes are likely to increase the cost to Texas employers through increased UI payments, because of more people on the rolls and increases in benefits.

As outlined in a study we commissioned, entitled *Competitive States*, by former Reagan economist Dr. Arthur Laffer, comparing Texas and California: “Firms base their decisions to employ workers, in part, on the workers’ total cost to the firm. Holding all else equal, the greater the cost to the firm of employing each additional worker, the fewer workers the firm will employ. Conversely, the lower the marginal cost per worker, the more workers the firm will hire”.

The study revealed that Texas’ economic environment is more competitive in five categories on taxes, regulatory and spending and is equal to California in the 6th (taxes on consumption). If we follow the herd off the cliff by accepting funds that require a change in benefits and number of people eligible, not only will we enact fiscally questionable policy, we may also lose our competitive advantage over other states.

We urge the committee to resist making costly changes to the system for the sake of drawing down federal funds.

I appreciate the opportunity to appear before you and give testimony. 