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**Tuesday, March 31, 2009**

## **The TPPF unemployment insurance debate**

*posted by paulburka at [12:09 PM](#)*

The Texas Public Policy Foundation hosted a debate last week on the subject of whether Texas should accept the stimulus funds for unemployment insurance. The audio is available on the TPPF web site [here](#). The participants were Republicans Kelly Hancock and Dan Gattis and Democrat Mark Strama. Craig Eiland, who was originally scheduled to participate, had a conflict. I am going to summarize the arguments below:

### **Hancock**

I heard people saying that the way to fix this is to add more people to our system, because we're paying out faster than we're bringing in [money]. This didn't sound right, that we need to add people to our rolls while we're paying out money in a fund that is not keeping up with the payments that we're paying out today, because we'll get a lump sum of money up front. I look at this as what's best for Texas long-term instead of a short-term kind of mentality.

If you look in a very short-term perspective, these funds are extremely beneficial to us. My wife and I started a new business, a farm and ranch store, it's been successful. Our business is up significantly. With our business, I had to borrow money up front so I could make more money in the end. The unemployment insurance money actually does the opposite. Rather than increase the revenue side long-term, it increases the expense side long-term. It does increase the revenue side short-term.

The impact of business is insignificant except when you draw the lines [Hancock and Strama both used slides that were provided by the Workforce Commission, although they did not have the same data] out to infinity and beyond.

You can see that in the short-term these funds are extremely beneficial to us for the first three, four years, it could be argued seven years. Proponents say we could get out to twenty years if we knocked fraudulent claims out of the unemployment system. I kind of scratched my head and thought, Well, why don't we just go ahead and do that, rather than commit ourselves to infinity and beyond?

There are those who think we can commit ourselves to these funds up front in the short term and then do away with them. I'm not one of those believers.

Look at the long term picture. This is kind of a cycle. We tend to run through cycles. We have been through some good times and some bad times. In 2002, we were in need because of a similar situation. We were allowed to have roughly \$598 million, no strings attached. We accepted that

money, we were able to pay them [the federal Department of Labor] back over an extended period of time. This is not unique. We've been through it before. The only thing that is different is that the feds are using it to attempt to create legislation that we've denied as a state. Now, if you don't believe in the Tenth Amendment, that's fine, but I happen to believe in the Tenth Amendment, and I think we should be in charge of our own state policies. So if you're worried that oh my gosh, we've never been through anything like this before, well, that's not true.

It seems like you don't hear any positive news these days. Well, there is still pretty positive news. The impact of [the business cycle] is that as employment goes up, unemployment goes down. The fund lags. You can see [referring to the slide], as we go on [to the out years], that not accepting the funds is actually a better scenario for business than accepting the funds. So what this decision comes down to is what your vision is. I happen to be nearsighted without my contacts. It takes me a little work to see out to where we are going. And it takes a little work to see beyond the short term impact on the State of Texas. It takes a little work to see where we have been. This is not a new situation. It is not a great situation, but we've been there before. The only thing different is before, we didn't have the federal government telling us how to do business in Texas. This time they're taking our money, holding it, and saying, "We know that you've never passed these bills before. We know that you've looked at doing this, but we think you're wrong." I happen not to agree with that.

\* \* \* \*

I presented Hancock's remarks in his own words, because his remarks tended to be general rather than specific. In the next section, I will try to summarize Strama's arguments along with some direct quotes.

## Strama

He began by distinguishing the situation in 2002 that Hancock referred to from the current recession: "For most members of the Legislature, the question of whether we should accept the \$550 million is different from what happened in 2002, which was a loan we had to pay back." The government is offering interest free loans again, but the stimulus money is a gift "in exchange for our efforts modifying our policy in regard to eligibility." Strama said that "most members" want to address the issue with a fact-based approach, not an ideological one but a practical one: "What's going to be best for the Texas economy both in the short term and the long term."

Strama continued: "As a small business person, whose business has not improved in the context of this recession, I am more concerned about my near-term taxes than my ten-year-out taxes. And let's stipulate this about unemployment taxes: They are entirely borne by employers, and we're all sensitive to the role that employers play in lifting us out of this recession in the long term. This was Strama's basic point: "What is indisputable under any fact pattern I have seen is that the effect of taking the money is to reduce the tax burden on businesses in the near term during the recession and to increase it by a lesser amount than the reduction we would get during the recession over the long term. **So that's the choice. Do you want to have relatively higher taxes on businesses, by a large margin in the short term, during the recession or do you want to have relatively higher taxes on businesses by a smaller margin in the out years?**"

Strama frequently referred to the lack of reliable data, about which he was clearly frustrated. One of the charts provided by the Workforce Commission assumed a five-year bond [to pay off the loan from the federal government] at an interest rate of 3%; he said a seven or eight year bond was more likely, "pushing back to 2016, 2017, or 2018 the inflection point where the cost of the eligibility

enhancements is greater than the savings of not having to bond out \$550 million in additional debt.”

He also explained what the federal government requires in order for states to qualify for the stimulus funds. First, Texas must start counting people who worked in the most recently completed quarter. (Texas must do this in order to qualify for ANY unemployment funds.) This will entail some administrative costs, but the feds provide \$38 million in no-strings funds for this purpose. In addition to adopting the alternative base period, Texas must choose two of four options, and we will choose the least expensive, Strama said. One category is “compelling family reasons,” such as leaving work to take care of a sick parent. The other is providing benefits to part-time workers who are looking for part-time work.

Strama argued that the expansions of eligibility were relatively small and would cost the state around \$75 million a year. He also said that, while the federal government would allow Texas to repeal the expansions, the members who supported taking the stimulus package, presumably Democrats, would not want to see the expansions repealed.

To restate Strama’s main argument, it is that any shortfall in the unemployment trust fund must be paid for by a tax on employers, and it is better to use the \$555.7 million in federal funds now, when businesses are pinched for money in a recession, than to raise their taxes. That is \$555.7 million that employers do not have to pay. It is true that in the long run, the cost of the expansions, \$75 million per year, will exceed the stimulus funds—Gattis will make that argument—but by this time Texas will have paid back the loans and paid off its bonds while minimizing the burden on employers.

## Gattis

Let me sum this thing up, because what we so often do is that we get drawn into a whole lot of arguments and a whole lot of issues and sometimes we miss the point. I don’t think anyone in this room would fall for the proposition of I will give you 555 dollars today if you will give me 75 dollars a day from here to eternity. That is the business proposition that has been placed upon us. The time period doesn’t matter, because it goes to eternity, but it just compresses so that you understand the absurdity of the offer, because it is an absurd offer. So what it boils down to is we have to look at what the federal government has asked us to do and you have to understand what the mantra is or what the strategy is. “Rahm Emmanuel is commonly quoted as saying it: One of the things you don’t ever want to do is waste a good crisis, and we’ve got a crisis, and let’s make sure we get our legislation passed that we want to get passed. Chairman Strama is right. If we pass this, it won’t ever go away.

[It is not my intention to argue with the debaters, but I do want to point out that I can easily envision a Republican legislature, six or eight years down the road, repealing the expansions when the loans and the bonds are paid off.--pb]

I really appreciate the Department of Labor ascribing to the Tenth Amendment and saying, Hey, you have a right to actually repeal this law 20 years from now. Oh, thank you, grandpapa of federal government, that we can actually write our own laws. **What are we really looking at? We’re looking at a payday loan.** That’s what we have. We need money today. I’ll give you money today. You pay me back over forever. We wouldn’t allow that. Those on the left or the right wouldn’t allow that. From a worker’s standpoint, if we put those who were truly in need in that kind of situation, we would be outraged. We would be down here passing laws to outlaw that kind of scenario where you pay forever for a small sum of money today. So really what does it boil down to? What is the ultimate cost to us? And I think Chairman Strama is right. You’re not looking at a .5% difference. You’re

looking at a 20% difference.” [This was a reference to Strama's saying earlier that when an employer's taxes increase from 2% to 2.5%, that's a 20% increase. Just to quibble, isn't .5 actually 25% of 2?]

And if you look at the tail end of that, that's exactly what you're looking at, a 20% increase on business with regard to unemployment insurance from the point in time that the lines cross [again, referring to Hancock's chart from the Workforce Commission] to eternity. I don't know about you, but I think that the best solution for unemployment is a job. I think that's what matters. And when you increase costs on business, that's what you decrease, is the opportunity for jobs. You have a short-term issue and you're going to create a long-term issue and a long-term problem, and I don't think it's the right thing to do.

Gattis then challenged the testimony of economist Ray Perryman, who said that every dollar provided in the stimulus package would turn over 2.6 times: “There is a fundamental flaw in this analysis. The flaw is this, that there is some money tree somewhere in the federal government that is coming into our state from another place. The only way that the federal government or the state government can put money into a system that has an impact is to take it from somebody else. Therefore it is a zero sum game. If you take the argument to the extreme, let's give everybody in the State of Texas a million dollars. We'd have the world's greatest economy. It won't work because you have to take it from somebody else.

Gattis also raised the issue of whether Texas should make the changes required by the federal government. He disagreed with changing the alternative base period and with including care of a sick parent among the compelling family reasons for leaving work. His argument was that unemployment insurance is supposed to protect people who have lost their jobs, and allowing benefits for “compelling family reasons” was akin to a general insurance policy for people who have a crisis in their homes, for which employers should not be on the hook.

In conclusion: “Chairman Strama and others are smart enough to know they would never accept a proposition of a payday loan for \$500 today and pay \$75 every day till eternity. They accept because they are willing to pay the \$75. To them it's a windfall. If you're not willing, it's an absurdity.

\* \* \* \*

This concluded the debate. Well, sort of. The panelists had the opportunity to address the points made by their colleagues.

Strama, disagreeing with Gattis, took issue with the idea of, forget the \$550 million, the debate should be about the merits of the eligibility issues. This is the debate Congress has. It's what Congress does to us all the time, pull the strings that are available for them to pull. I think it's relevant that it affects the taxes business will pay in the short term, whether we will reduce business taxes by 20%. In the out years the effect of \$76 million on a \$2 billion system is 3.8%.

Hancock: It's OK to step on the Tenth Amendment today because the feds have already done it in the past. While I may need my glasses to read my Bible early in the morning, the feds need their glasses to read the Tenth Amendment in the short term.

Strama: The second thing I disagree with is the analogy of a payday loan: Is this a good deal, we get \$550 million in return for paying them \$70 million a year. We don't pay them anything. It is more accurate to say that they're giving us \$550 million now to give our citizens \$70 million a year. This is not a payday loan.

Gattis: The analogy is of a charity feeding children. Government is not a charity.

Members of the audience had a few minutes to ask questions. The audio was imperfect, and most of the discussion involved whether, if Texas turned down the money, it would go to other states. The discussion was inconclusive.

My take on this is, first, that TPPF made a real contribution to the debate over the stimulus package by hosting the discussion. Hancock was clearly overshadowed by the other two debaters. He laid out the basics of the Republicans' case effectively, but the rest of his presentation contributed little. I'm a big believer in the Tenth Amendment too, but it is mainly a rhetorical issue. Strama and Gattis were the heavyweights. Strama's debating style was more wonkish, Gattis's more like a jury argument that played to the audience. The burden of the affirmative is to demonstrate that there is a need for the proposition (that is, taking the stimulus money), and I think Strama did so successfully, by arguing that employers were better off paying less in taxes today, when the economy is in the ditch, and utilizing the \$550 million, and paying more in taxes later, when they can afford it. Hancock and Gattis responded that employers would be paying \$75 million unto eternity, and it is true that in the out years, by the eighth year or so, the cumulative \$75 million per year will exceed the \$550 million. They are right, of course, but the problem exists right now, and no one prepares budgets based on eternity, which is another way of saying that in the long run we're all dead. Gattis tried hard to avoid making an ideological argument, but in the end the "eternity" case comes down to opposition to "expanding government." I thought he won the section of the debate that involved whether we should expand eligibility, and Strama lost points by not engaging on the issue. The biggest problem for Gattis was that he built his case on the metaphor of a payday loan, but Strama was able to find a weakness in the metaphor. I would also have graded Gattis down for questioning the multiplier effect of the stimulus dollars, which is an established economics phenomenon.

If I had to pick a winner, I would say that the affirmative won the debate. But then I would have to recuse myself because I think we ought to take the money.

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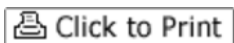
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