

**PRESIDENT'S FISCAL YEAR 2004 BUDGET FOR THE  
U.S. DEPARTMENT OF LABOR**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON WAYS AND MEANS**  
**U.S. HOUSE OF REPRESENTATIVES**  
ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

MARCH 12, 2003

**Serial No. 108-13**

Printed for the use of the Committee on Ways and Means



U.S. GOVERNMENT PRINTING OFFICE

90-269

WASHINGTON : 2003

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**PRESIDENT'S FISCAL YEAR 2004 BUDGET FOR  
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**WEDNESDAY, MARCH 12, 2003**

U.S. HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
*Washington, DC.*

The Committee met, pursuant to notice, at 10:34 a.m., in room 1100, Longworth House Office Building, Hon. Bill Thomas (Chairman of the Committee) presiding.

[The advisory announcing the hearing follows:]

# ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE

CONTACT: (202) 225-1721

March 05, 2003

FC-6

## **Thomas Announces Hearing on the President's Fiscal Year 2004 Budget for the U.S. Department of Labor**

Congressman Bill Thomas (R-CA), Chairman of the Committee on Ways and Means, today announced that the Committee will hold a hearing on the President's fiscal year 2004 budget for the U.S. Department of Labor. **The hearing will take place on Wednesday, March 12, 2003, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:30 a.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from the Honorable Elaine Chao, Secretary, U.S. Department of Labor (DoL). However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

### **BACKGROUND:**

On January 28, 2003, President George W. Bush delivered his State of the Union address and outlined several legislative initiatives. The details of these proposals were released on February 3, 2003, when the President submitted to the Congress his fiscal year 2004 budget proposal. The budget for DoL includes initiatives to create personal reemployment accounts to help laid-off workers return to work and to reform the administrative financing of the Nation's unemployment compensation system.

In announcing the hearing, Chairman Thomas stated, "This first appearance of Secretary Chao before the Committee will provide us with an opportunity to learn more about DoL proposals in the President's fiscal year 2004 budget. This information will be helpful as we continue laying the groundwork for the coming year's legislative business, including our goals of encouraging more job creation and crafting other measures to assist our Nation's workers and families."

### **FOCUS OF THE HEARING:**

The focus of the hearing will be DoL proposals in the President's fiscal year 2004 budget that are within the Committee's jurisdiction.

### **DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:**

Please Note: Due to the change in House mail policy, any person or organization wishing to submit a written statement for the printed record of the hearing should send it electronically to [hearingclerks.waysandmeans@mail.house.gov](mailto:hearingclerks.waysandmeans@mail.house.gov), along with a fax copy to (202) 225-2610, by the close of business, Wednesday, March 26, 2003. Those filing written statements that wish to have their statements distributed to the press and interested public at the hearing should deliver their 200 copies to the full Committee in room 1102 Longworth House Office Building, in an open and searchable package 48 hours before the hearing. The U.S. Capitol Police will refuse sealed-packaged deliveries to all House Office Buildings.

**FORMATTING REQUIREMENTS:**

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. Due to the change in House mail policy, all statements and any accompanying exhibits for printing must be submitted electronically to [hearingclerks.waysandmeans@mail.house.gov](mailto:hearingclerks.waysandmeans@mail.house.gov), along with a fax copy to (202) 225-2610, in Word Perfect or MS Word format and MUST NOT exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Any statements must include a list of all clients, persons, or organizations on whose behalf the witness appears. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman THOMAS. Good morning.

Today, the Committee welcomes Secretary Elaine Chao of the U.S. Department of Labor in her first appearance before the Committee on Ways and Means. We are very pleased to have you, Madam Secretary.

Ms. CHAO. Thank you.

Chairman THOMAS. She will be discussing the Administration's budget proposals for the Department of Labor that fall within or affect the jurisdiction of this Committee.

I would urge Members, although there is the possibility of a wide-ranging discussion over a number of issues, that it probably serves all of us best if we focus our attention on those measures we can actually affect and that fall under the jurisdiction of this Committee.

Madam Secretary, it is appropriate that you are here today, in my opinion, because President Bush, just 1 year ago this week, signed legislation on extending unemployment benefits, and of course the President, in his most recent State of the Union and budget presentation, has outlined an aggressive and active program. Many of those programs affect the jurisdiction of this Committee.

Today, we will hear about specific proposals in the President's budget that would provide States more funding flexibility to help unemployed workers, improving the Nation's unemployment compensation system, which is obviously not a new subject of this Committee.

Over the years, a number of hearings have been held and legislative proposals considered. In 1994, as a matter of fact, a number of our Democratic colleagues proposed the creation of re-employment bonuses, much like the re-employment accounts proposed in

the President's budget for 2004. We will look forward to exploring this concept and other features of the President's proposal today.

Prior to recognizing the Secretary, I would call upon the Ranking Member, the gentleman from New York, for any comments he may wish to make.

[The opening statement of Chairman Thomas follows:]

**Opening Statement of The Honorable Bill Thomas, Chairman, and a Representative in Congress from the State of California**

Good morning. Today, we welcome Secretary Elaine Chao of the U.S. Department of Labor in her first appearance before the Ways and Means Committee. She will be discussing the Administration's budget proposals for the Department of Labor that fall within or affect the jurisdiction of this Committee.

Madame Secretary, it is appropriate that you are here today. It was one year ago this week that President Bush signed legislation that has provided Federal extended unemployment benefits to four million workers to help them get through these tough economic times.

That's not the only action we've taken. The first bill passed and signed this year continued the special extended benefits program we created last year. As a result, an additional two million workers—for a total of six million—will receive Federal extended benefits through August 2003.

We did not forget States, either. As part of last year's legislation we provided States a record \$8 billion in surplus Federal unemployment funds. Last week the General Accounting Office (GAO) reported that this transfer has kept unemployment payroll taxes from rising in 30 States. Further, more than \$6 billion recently remained available to States should they wish to use it for extended or expanded benefits. Only a handful of States have used this money to expand unemployment benefits, or plan to in the coming year. Perhaps that is because States know that if they expand benefits now using these Federal funds, they will have to keep paying for such added benefits in the future through higher State taxes, undermining economic recovery and job growth. To us, and I am sure the States, this flexibility is one of the strengths of our approach.

This Committee also has focused a great deal of time and attention to helping unemployed workers get what they most want—a job. We have held a series of hearings on the President's growth and jobs proposal, and expect to act in the coming days on this plan.

Today we will hear about specific proposals included in the President's budget that would provide States more funding and flexibility to help unemployed workers get back to work quickly. Improving the Nation's unemployment compensation system is not a new subject to this Committee.

Over the years, a number of hearings have been held and legislative proposals considered. In 1994 a number of our Democratic colleagues proposed the creation of reemployment bonuses, much like the "reemployment accounts" proposed in the President's budget for 2004. We look forward to exploring this concept and other features of the President's proposal today.

Madame Secretary, I look forward to your testimony. Before we get started, I would like to first recognize the gentleman from New York, Mr. Rangel, for any comments he would like to make.

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Mr. RANGEL. Thank you, Madam Secretary, and I appreciate your concern about the millions of people that not only do not have jobs, but the jobs are not available for them.

So, while there is a deep dependency on the President's economic recovery program, I would be most interested in how you see where we can provide temporary relief for these workers that don't find employment to be available for them, as well as what help you can give in our various congressional districts to a training center and basically how to ease the pain for those who find themselves without employment opportunities.

The bonuses that are offered seem to suggest that people need incentives to find jobs financially, but I think, as you do, that the

changes in job opportunity, that gap has to be fixed. Whatever you can leave with us that would allow us to meet with you, perhaps in a different setting, as to how we can be helpful with whatever resources you have or recommendations you have to ease the pain of those people who are without employment, and I look forward to hearing your testimony. Thank you, Mr. Chairman.

Chairman THOMAS. Thank you very much, Mr. Rangel.

I would caution everyone that the Secretary has a very busy schedule, and we are going to try to finish the hearing, if at all possible, with Members believing they have had an adequate time to question, very close to noon. My concern is we may have a series of votes at 11:00 a.m., and that will make it difficult for us. So, I am looking forward to those Members who do wish to inquire—obviously, there is no requirement that you inquire—but if you do wish to, there will be time made available to you. Does the gentleman from Illinois wish to inquire?

Mr. CRANE. I pass.

Chairman THOMAS. Does the gentleman from Florida wish to inquire?

Mr. SHAW. No, that is fine.

Chairman THOMAS. Does the gentleman from New York wish to inquire?

Mr. RANGEL. I pass right now, Mr. Chairman.

Chairman THOMAS. Does the gentleman from California, the Chairman of the Subcommittee on Human Resources, wish to inquire?

Mr. HERGER. Thank you, Mr. Chairman.

Chairman THOMAS. The Chair apologizes because what we ought to do is hear the testimony of the Secretary, although I do think that would be an effective technique that I might plan on using in the future, but I don't think I should use it now.

[Laughter.]

The Chair apologizes to the Secretary, and any written statement you may have will be made a part of the record, and you can address us in any way you see fit.

**STATEMENT OF THE HONORABLE ELAINE L. CHAO,  
SECRETARY, U.S. DEPARTMENT OF LABOR**

Ms. CHAO. Thank you, Mr. Chairman. I do have a formal statement for the record, which I will submit.

Good morning, Chairman Thomas, Congressman Rangel, and Members of the Committee. Thank you for the opportunity for me to be here to testify.

Today, I want to highlight two very important Presidential proposals, a proposal to create Personal Reemployment Accounts, which is included in the President's economic growth and jobs package and reform of the Federal-State Unemployment Insurance (UI) program, which is included in the President's fiscal year 2004 budget. Both deliver critical assistance to unemployed and dislocated workers and ensure that our safety net remains strong and flexible.

As you know, our economy started slowing down in the summer of 2000. The stock market peaked in February 2000, and the manufacturing sector began to hit the doldrums in August 2000. This

Administration came into office facing three quarters of negative growth. Our economy began to tick upward, but then the devastating attacks of September 11, 2001 occurred, in which 1.5 million jobs were lost.

Despite these blows, the economy has started to grow again, and we are in our second consecutive year of growth. This Administration is deeply concerned that the economy is not growing fast enough or strongly enough and that too many people who want to find work can't find it. That is why the President has proposed a comprehensive jobs and growth package to jump-start the recovery and create new jobs.

As you know, the plan contains many features to promote long-term economic growth, but today I would like to highlight the President's proposal to deliver critical, short-term assistance to the unemployed and dislocated workers through the Personal Reemployment Accounts.

Under the President's proposal for Personal Reemployment Accounts, an eligible worker will be able to custom design his or her own training package and supportive services. He or she will be able to purchase the training, counseling, skills assessment, transportation, child care and even relocation services needed to get back to work. We believe support services can make a critical difference in helping unemployed and dislocated workers return successfully to the workplace.

States will administer these proposed Personal Reemployment Accounts through the One-Stop Career Center System. Potential eligible claimants would be identified through the existing UI screening system, which assesses the likelihood of an individual claimant exhausting his or her benefits before finding a new job. Workers who find a job within 13 weeks would be able to keep the balance remaining in their account.

The President has also proposed additional ways to strengthen the safety net for unemployed workers. The Department of Labor has spent 2 years meeting with interested parties and examining ways to make the UI program more responsive to the needs of workers.

Our proposal responds to the needs of workers by reforming the permanent extended benefits program. It responds to the needs of employers by reducing the amount of Federal taxation and guaranteeing at least a two-tenths cut in taxes for all employers in all States so they can have more dollars to invest, hire new workers, and pay higher wages. It gives the States the flexibility to administer the program in line with their individual policies.

Our proposal addresses all of these issues while continuing the nearly 70-year-old successful Federal-State partnership.

In conclusion, I think the two proposals will help us respond more effectively to changing economic conditions and will strengthen an important safety net for America's workers.

I look forward to working with this Committee as we move forward on addressing assistance for unemployed dislocated workers and how we implement the Personal Reemployment Accounts and UI reforms to help these workers. I will be glad to respond to any questions you may have. Thank you.

[The prepared statement of Ms. Chao follows:]

**Statement of The Honorable Elaine L. Chao, Secretary, U.S. Department of Labor**

Good morning. Chairman Thomas and distinguished members of the Committee, I thank you for inviting me to testify. I am extremely pleased to have the opportunity to discuss the President's fiscal year 2004 budget proposal to reform the Federal-State Unemployment Insurance (UI) program and the President's proposal for Personal Reemployment Accounts (PRAs). Our proposed reforms of the UI program will promote long-term economic growth and job creation by reducing federal unemployment taxes, making Federal-State extended unemployment benefits available earlier and to more workers in future economic downturns, and giving States the opportunity to take control of administrative funding along with new administrative flexibility. While UI reform will have a positive impact on the economy in the long-term, PRAs will help our current economy by giving UI claimants unprecedented choice in accessing the services they need to get back to work as quickly as possible.

The Unemployment Insurance program is a key element of our Nation's economic infrastructure acting as an automatic stabilizer during economic downturns by providing temporary, partial wage replacement for workers who have been laid off and are seeking jobs. In addition, UI is the front door for these workers to a wide array of reemployment services available through the Workforce Development System. Improving the UI program's ability to act as a macroeconomic stabilizer and providing UI claimants with new resources and incentives to get back to work foster labor market flexibility and mobility—two essential elements of a dynamic and vibrant economy.

**The President's Economic Message**

UI reform and PRAs are important parts of the President's comprehensive plan for the economy. On January 7, President Bush announced a growth and jobs package that places great emphasis on improved job creation to ensure the economy continues to grow. The main goals of this economic agenda include encouraging consumer spending; promoting business investment; and delivering critical help to unemployed workers. In early January Congress responded on a bipartisan basis to the President's request for an extension of Temporary Extended Unemployment Compensation. Last month, Congress received the *Economic Report of the President* that emphasizes the importance of designing government policies that preserve and build on the dynamism and vitality of the labor market. UI reform and PRAs are important elements of the President's vision for the economy.

**The President's FY 2004 Budget Request**

Before addressing UI reform, I would like to comment briefly on the FY 2004 discretionary budget request for UI State administration. \$2.6 billion is requested, about the same as the FY 2003 enacted level. In FY 2004, these funds will finance the following major functions of the States:

- Determining benefit entitlement for about 14 million newly unemployed workers.
- Paying benefits to an average of 2.9 million unemployed workers per week.
- Collecting State taxes from 7.1 million employers.

In line with the President's Management Agenda—to improve government performance and efficiency—the request includes \$500,000 for a study to examine current State payment practices and develop cost-effective procedures to prevent and detect UI benefit overpayments. Let me tell of some of the efforts the Department has already undertaken in improving payment accuracy and combating fraud.

- To focus State attention on payment accuracy, we are developing a goal under the Government Performance and Results Act.
- To quickly detect individuals who have gone back to work but continue to collect UI, we are encouraging all States to use information in State directories of new hires. About two-thirds of the States currently use this information.
- To prevent the fraudulent use of social security numbers in filing UI claims, we are working with the Social Security Administration to provide State UI agencies real-time access to the social security database.
- To provide a forum for sharing successful practices for preventing, detecting, and collecting UI overpayments, we are co-sponsoring a national UI integrity conference.

**UI Reform Background**

For several years now we have been examining ways to reform the UI program so that it reflects the 21st century economy and workforce. The system's major

stakeholders have all expressed dissatisfaction with some aspect of the present system. Worker advocates are concerned about its responsiveness to worker needs during recessions. State program administrators are dissatisfied with what they see as continued underfunding of the UI program by the Federal Government. Business leaders believe that federal unemployment taxes are too high and that too little of those taxes is returned to States.

In response to these concerns, we have examined the program's funding structure, the level of federal taxation, the effectiveness of the extended benefit program, and the flexibility States have to administer the program. Our proposal addresses all of these issues, while continuing the successful Federal-State partnership that has been responsible for this program for nearly 70 years.

#### **Down Payment on Reform**

I would like to start by thanking this Committee for its leadership last year in crafting legislation that established the Temporary Extended Unemployment Compensation program and distributed \$8 billion of federal unemployment funds (commonly called a Reed Act distribution) to the States. These actions represent an important down payment on UI reform. These short-term actions are helping to meet the present needs of unemployed workers during the current economic slowdown and improving States' capacity to provide vital benefits and services to unemployed workers and businesses.

An immediate effect of the Reed Act distribution was an improvement in trust fund solvency. In addition, a recently released report from the General Accounting Office provides more detail on how States have used the Reed Act funds to date. In 2003, increases in unemployment tax rates were mitigated or avoided in 20 States. Nine States increased/expanded benefits, and 20 appropriated some of these funds for UI administrative improvements. Because many States plan to propose further spending of Reed Act funds in 2003, a complete assessment of the distribution cannot be made at this time. However, information received so far indicates that States have acted appropriately to meet their unique concerns. This is a promising start in our comprehensive proposal to reform the UI program.

#### **Give States Opportunity and Flexibility**

Our proposal would resolve the longstanding issue of adequately funding UI administration. Under the current system, the cost of administering the State UI programs is funded from federal funds, while the actual State UI benefit payments are funded from State UI taxes. States determine the parameters of their UI programs, which, in turn, can affect administrative costs. In addition, a State's unique demographic and industrial characteristics affect the dollar amounts needed to efficiently administer its UI program. Yet States have little or no control over the amount of administrative funds they will get from the federal partner. And we in Washington are not the best situated to determine the appropriate amount needed by each and every State to efficiently administer its UI program. The result is constant struggle between the States and the Federal Government over the amount of funds that should be granted to the States for administration.

By several measures, the States have a strong case that administrative funding has been inadequate. During the 1990s UI administration was funded below what was needed to cover workload increases and inflation, reaching 13% underfunding by fiscal year 1999. This occurred even though, during an average year in the 1990s, the Federal Government took in \$5.7 billion in dedicated federal unemployment (commonly called FUTA) taxes each year, while returning only \$3.1 billion to the States for UI and Wagner-Peyser Act funding.

The Omnibus Appropriations bill just enacted resulted in an estimated \$104 million reduction from the funding level the President's revised FY 2003 request for UI administration would have provided. Moreover, the appropriators' change in the contingency funding mechanism runs the risk of severely underfunding the States if workloads are higher than projected, possibly up to a \$260 million shortfall. States have also suggested additional funding needs of at least \$400 million, based on their own accounting records. All of these combined suggest States could fall short by three-quarters of a billion dollars for UI administration.

The current funding system clearly is not working well and must be replaced. Each State is in the best position to assess its own need for administrative funds. When a State legislates a change in its UI program, which may require increases in its administrative budget, it should be able to determine its funding level for administration rather than relying on the distant budgetary process in Washington. We propose that States have that flexibility, concurrent with a reduction in the federal taxes that now finance UI administration. States already have in place a sys-

tem to collect UI taxes. Indeed, States collect approximately \$30 billion annually for the payment of UI benefits.

In sum, our proposal gives States the opportunity to finance administration from State revenues by transferring primary responsibility for financing the administration of the UI program from the Federal Government to State governments. Let me explain the details of this transfer.

In our proposal, the transfer would begin with a transition period for FYs 2007–2008 and States would have full responsibility effective with the start of FY 2009. During the transition period, the Federal Government would:

- Transfer \$2.7 billion to States' accounts in the Unemployment Trust Fund in each of FYs 2007 and 2008; and
- Share costs for FY 2007 (2/3 federal share) and FY 2008 (1/3 federal share).

To further ease this transition, the Federal Government would provide hold-harmless funding beginning in FY 2009. For certain States where costs are high relative to their FUTA revenues, these hold-harmless funds will be provided as long as States make a strong effort to raise their own administrative funds.

Some have questioned whether this new financial responsibility could cause States to cut benefits and weaken system performance/integrity to avoid increasing State UI taxes. States already have the responsibility to determine UI benefit levels and benefit eligibility requirements, and to set and collect experience-rated taxes. We believe that State decision makers, who are closer to the workers and employers served by the system, already have sufficient incentives to adequately fund UI benefits and administration. Indeed, States are already augmenting their federal administrative allocation by about \$140 million a year. In addition, new incentives for adequate administrative funding will be created. For example, although both States and the Department are concerned with payment integrity, the current system lacks a strong incentive to spend administrative dollars to reduce fraud and erroneous payments. The proposal remedies this problem because States recognize the direct connection between benefits and administrative spending. A State agency will be well positioned to request dollars from its State legislatures for payment integrity since every dollar expended on overpayment reduction will translate into direct savings to that State's unemployment fund.

Many other elements of the proposal give States new flexibility to improve program administration. For example, although many States are already using their State Directories of New Hires for quick detection of individuals who have gone back to work, they do not have access to new hires reported to other States. The proposal would address this by giving all States access to the National Directory of New Hires. This would be an additional, important tool for helping States quickly detect fraud and would result in savings to State unemployment funds.

### **Promote Job Growth**

Our 2003 proposal includes several features that will become the seeds of economic growth and job creation. A key element that promotes job growth is a major cut in federal unemployment taxes. As explained previously, through the 1990s the Federal Government took in an average of \$5.7 billion in FUTA taxes each year, while returning only \$3.1 billion to the States for administrative funding. Even if we had adequately funded UI administration during this period, we were still collecting more in taxes than needed to maintain sufficient reserves. Therefore, a tax reduction is long overdue. Since our proposal would transfer responsibility for funding UI administration to the States, we are proposing a major cut in FUTA taxes.

Our proposal would reduce the net FUTA tax to 0.6% in January 2005, representing a tax cut of 25%. The net FUTA tax would then be reduced to 0.4% in 2007 and to 0.2% in 2009. Taken together, this represents a 75% **federal** tax cut for America's employers. Even though States will need to impose their own administrative taxes, we believe most, if not all, employers will receive a net tax cut of twenty-five percent or more of their current FUTA tax. These tax cuts are vital because, by reducing the cost of doing business, employers are better positioned to invest, hire more workers, and pay higher wages. The remaining 0.2% FUTA tax would be used to:

- Pay the federal share of extended benefits;
- Make State grants for certain federal activities;
- Supplement administrative funding as necessary; and
- Make federal loans available to any State that runs out of funds to pay unemployment benefits or administrative costs.

Rest assured that even with these tax cuts, federal accounts will remain solvent. Sufficient funds will be available to handle all of these federal responsibilities.

In addition, the proposal will save employers time and money by streamlining tax filing. A technical change to federal law would allow the IRS to simplify the federal unemployment tax form, saving employers time and money in their efforts to comply with federal reporting requirements thus freeing resources for economic development.

#### **Strengthen the Economy**

The UI system is an important economic stabilizer during economic downturns and this proposal strengthens its stabilization capacity by reforming the extended benefit (EB) program. The EB program did not work in the early 1990s recession, when only 10 States met the current 5.0% insured unemployment rate trigger, which is the only mandated method of “triggering on” the EB program in all States. Last year, only 3 States met this trigger, and none currently meet it, although 3 States are now on EB using one of the optional triggers for the program. In part because of the inadequacy of the EB program, special emergency federal extensions have been enacted that made benefits available in all States, not just those that had higher unemployment.

To address this problem, the level of unemployment at which EB is triggered would be lowered from the current 5.0% insured unemployment rate to 4.0%. Our goal is to ensure extra benefits are triggered when they are needed without special legislation. Improving the responsiveness of the EB trigger will mean more workers would receive the extra help they need earlier in future downturns and EB would be a stronger economic stabilizer.

In addition, we propose eliminating the special federal requirements relating to eligibility of claimants for EB. State law provisions regarding eligibility for regular compensation would apply to EB. This will simplify State administration and cut “red tape” for workers.

#### **Maintenance of a Strong Federal Role**

Although this proposal provides States with much flexibility, it maintains a strong federal role. The Federal Government’s role of monitoring conformity/compliance with federal requirements and State program performance against federal standards would continue. Moreover, federal requirements related to prompt payment of benefits, fair hearings, coverage of services, etc. would not change. Lastly, we would provide funding for the hold-harmless, federal activities, 50% of EB, and loans to States for UI benefits and administration.

#### **Key Advantages**

We firmly believe that this proposal has key advantages for all of the UI system’s major partners and stakeholders. By taking responsibility for funding, States will have more flexibility and control, enabling them to better serve the unique needs of their workers and employers. By lowering the trigger for extended benefits and using States’ rules, unemployed workers will get help faster with less hassle. By significantly cutting FUTA taxes and streamlining filing, employers will be positioned to hire new workers.

#### **Supporting Job Growth through Personal Reemployment Accounts**

One of the proposals that would specifically help today’s UI beneficiaries who are struggling to get back to work is Personal Reemployment Accounts (PRAs). These accounts will be worker-managed, contain up to \$3,000, and will be used for the purchase of a variety of reemployment services or as a bonus for obtaining early reemployment.

These proposed accounts rely on existing program structures. They will be administered through the established and easily accessible One-Stop Career Center System, where UI claimants already seek assistance in obtaining employment. As I’ll discuss in more detail later, UI claimants who are potentially eligible for these accounts will be identified through the existing UI worker profiling system.

The anticipated economic benefits of the proposed PRAs are numerous. These accounts represent a new and innovative approach to helping unemployed workers make a quick return to work and provide businesses with the skilled workforce that they need. They will empower individuals by giving them more flexibility, personal choice and control over their job search and career.

Since experience has shown that unemployed workers have a wide range of needs, the PRAs allow each worker to custom design a reemployment services package in accordance with his or her needs. For example, some individuals may determine they need extensive retraining in order to compete for jobs in a high-growth industry while others may only need to complete a short-term computer course in order to return to work quickly or purchase child care in order to search for work. The

flexibility of PRAs will accommodate these and many other situations, thus making the delivery of government services more efficient.

By enabling unemployed workers to access the reemployment services they need most, there is an increased likelihood that they will return to work sooner and in a job for which they are more prepared and better skilled.

#### **Relationship of Personal Reemployment Accounts to UI**

Although the accounts are closely tied to the UI program, they do not supplant or replace UI benefits. They are an additional means of speeding the long-term reemployment of UI claimants. In that sense, they complement both the existing UI and One-Stop Career Center Systems. Receipt of account funds will not adversely affect an individual's UI eligibility nor make a UI exhaustee ineligible for public assistance.

PRAs build upon the Social Security Act requirement, commonly called "profiling," which originated in this committee in 1993. Under this requirement, States currently identify those workers who are at greatest risk of exhausting UI and most in need of reemployment services. Workers so identified are referred to available reemployment services. PRAs will insure that a wide range of reemployment services are available to at least 1.2 million UI beneficiaries who are identified through this system. Under special transition provisions, States will have the option of making accounts available to certain current UI claimants who were previously found likely to exhaust UI or to certain workers who have already exhausted their UI benefits.

The accounts can also be used to pay a Reemployment Bonus under certain conditions. To provide additional assistance, new UI claimants who receive PRAs and who become reemployed by the thirteenth UI benefit payment will receive any cash remaining unspent in their account as a Reemployment Bonus. Similarly, the groups added at State option—certain UI claimants who were previously identified as likely to exhaust UI and certain UI exhaustees—that become reemployed by the thirteenth week of the effective date of the account can also receive the Reemployment Bonus.

The bonus would be paid to the individual in two installments: 60% at employment and 40% after 6 months of job retention. Individuals who do not find employment within the thirteenth week rule would not be able to "cash out" their account but would continue to be able to purchase intensive reemployment, training and supportive services for up to one year from the effective date of the account. With respect to the income tax implications of PRAs, the Administration will work with Congress to ensure that pay-outs for training and supportive services would not be taxable; payouts for income support and reemployment bonuses would be taxable.

#### **Conclusion**

I enthusiastically conclude that these proposals are exactly what is needed to respond effectively to current economic conditions and future trends. I look forward to working with this Committee as we move ahead on UI reform.

This concludes my remarks. I will be glad to respond to any questions you may have. Thank you.

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Mr. HERGER. [Presiding.] Thank you, Madam Secretary.

Madam Secretary, in addition to matters raised in your budget, are there issues that we could explore to make unemployment benefits work better? For example, do unemployment benefits encourage workers to find jobs quickly or do they delay their returns to work? How much does this system lose to fraud and abuse every year, and what steps are being taken to prevent that?

Ms. CHAO. Well, I know that everyone is concerned about how best to help unemployed workers. We work in a very successful Federal-State partnership. The issues that you mentioned are important ones, and that is how do we help workers find new jobs? I think most people would rather receive a paycheck, rather than an unemployment check, and so we want to make sure that the incentives that we build within the Federal government and the State governments, in terms of getting people back to work, are truly there.

So, the President's Reemployment Accounts, we hope, will be something that will be attractive to those who may have a hard time with getting back to work. The Personal Reemployment Accounts do give individual workers about \$3,000, and if there is any excess left over, they can certainly keep that for themselves.

As for fraud, waste and abuse, unfortunately, there is an element of that as well in UI. Annually, we have about an 8-percent unintended rate, and that comes out to be about \$2.8 billion in probably fraudulent claims that are paid out. We have worked with the Inspector General in the Department of Labor, and I know that this is an issue for some Members of the Committee, and I would be glad to work with them on that as well.

Mr. HERGER. Thank you very much. The Ranking Member from New York, Mr. Rangel?

Mr. RANGEL. Thank you. I think your answer is that unemployed people would rather have a job than to receive unemployment compensation.

Ms. CHAO. Yes.

Mr. RANGEL. There seems to be a feeling, and I hope it is not shared by the Administration, that people that receive extended unemployment benefits would not be seeking jobs. Could you shatter that myth of thinking? I thought it was incorporated in the Chairman's question to you, that unemployment benefits deter people from looking for jobs?

Ms. CHAO. Well, we certainly hope not because we think that most people want a job, they want a new job, they want to get back to work. So, we have always said that people who are dislocated, laid off, would much prefer to have a paycheck rather than an unemployment check.

Mr. RANGEL. Well, we can put that one behind us, and then move forward to see whether or not you would support a continuation of the current extended benefits program after it expires in May.

Ms. CHAO. Well, the second part of the Chairman's question about the unintended payouts is a real one as well, and that is about \$2.8 billion or \$2.6 billion a year.

Mr. RANGEL. Madam Secretary, to someone that is unemployed, that has no health insurance—

Ms. CHAO. I am not saying that it is all abuse and fraudulent, but there is duplicate payments, for example, or—

Mr. RANGEL. Well, that is our fault.

Ms. CHAO. Right.

Mr. RANGEL. In other words, maybe the Congress has a lot to do, you have a lot to do, but all I am asking is that for the overwhelming number of people seeking a job, and seeking a little dignity at the same time, could you see your way clear to support a continuation of the existing program when it expires, since the employment market has worsened?

Ms. CHAO. The President has extended UI benefits twice already, and the second extension ends in May.

Mr. RANGEL. That was my question.

Ms. CHAO. Right. So, I think let us look at the situation, and, as the time gets nearer, let us talk.

Mr. RANGEL. Thank you.

Mr. HERGER. Thank you, Mr. Rangel. The gentleman from Illinois, Mr. Crane, to inquire.

Mr. CRANE. Thank you, Mr. Chairman, and thank you, Madam Secretary.

When the issue of Personal Reemployment Accounts was up before the Committee on Education and the Workforce, an accusation was made by some on the minority side that those workers who elect to take advantage of the plan would be prohibited from receiving training and education at Employment Training Centers for a year. Can you explain if this is true or untrue.

Ms. CHAO. No, it is not true. People will be basically still able to access core services at the One-Stop Centers.

Mr. CRANE. Very good. Thank you. I yield back the balance of my time.

Mr. HERGER. Thank you. The gentleman from California, Mr. Stark, to inquire.

Mr. STARK. Well, thank you, Mr. Chairman. It is a real honor to see the Secretary from the Department of Labor here, and see the person who dreamed up this voucher plan for Personal Retirement Accounts, instead of cash. I can't think of anybody in my district who wouldn't trade it for unemployment benefits, but we will see.

I am sure that it probably comes from the Administration. I do recall that the press secretary for the Canadian Foreign Minister called our President a moron, and of course the press responded and said that was not a political Statement, it was an accurate assessment, but a bad choice of words. It would take somebody with that kind of intellect to come up with this.

I read in the Washington Post this morning that the Administration intends to spend \$20 billion to reconstruct Iraq to stimulate their economy. We will be employing 2 million or more bureaucrats and soldiers to stabilize Iraq. Now, right now you are protecting \$53 billion in unemployment benefits and \$3.6 billion on the Personal Reemployment Accounts, just a little bit more than the President is going to spend on Iraq.

Why wouldn't you go back to the Cabinet and suggest to our leader that instead of wasting money on first destroying Iraq, which a lot of the people, half the Americans think is a dumb idea, and then paying \$20 billion to rebuild it and putting 2 million Iraqis to work while we still have 2 million Americans unemployed.

So, I want to know where your priorities are. Wouldn't it be better to spend the \$20 billion earmarked for Iraq and spend that to extend benefits to 3 million workers in our own country who are out of work? Doesn't that make more sense to you, Madam Secretary?

Ms. CHAO. Extended benefits are important, and this Administration has extended unemployment benefits twice already. A person who is out of work can potentially receive—

Mr. STARK. So, they just got tired. Now they are going to extend them in Iraq.

Ms. CHAO. A person right now potentially can receive 62 weeks of UI benefits.

Mr. STARK. Couldn't you take the money that he is going to throw away at Iraq, hiring 2 million Iraqis, and couldn't you spend

that to provide benefits for our 3 million unemployed? You could figure out how to do that, couldn't you?

Ms. CHAO. Well, the Department of Labor spends about \$71 billion a year to help the unemployed with the training and with also paying out UI.

Mr. STARK. There aren't any jobs. Now, all you would have to do—

Ms. CHAO. Well, that is why the President's economic plan is supposed to hopefully create more jobs.

Mr. STARK. So, in Iraq, 2 million jobs in Iraq. Now, I have to go back and explain to my constituents who are out of work—we have got 8-percent unemployment—Herb Caen, who used to write for the San Francisco Chronicle, called San Francisco Baghdad by the Bay. How's about that Baghdad getting 2 million jobs first, and then let us worry about that other Baghdad later. Wouldn't that seem to be a patriotic thing to do, as far as you are concerned?

Ms. CHAO. Well, the President's job and growth package would create about 1.4 million jobs by the end of 2004.

Mr. STARK. Do you want to bet? Are you a betting person? Do you want to bet a month's salary that he won't come anywhere near that. You are losing jobs.

Ms. CHAO. You seem to be so much more—

Mr. STARK. I just got a report last Friday that we lost 300,000 jobs in February, and we are going down, and down, and down, and there is no end in sight. What I want to know is do you think it is a good idea to spend \$20 billion on 2 million jobs in Iraq? How will that help the unemployed workers in this country?

Ms. CHAO. Well, let me address your question about the 308,000 workers who lost their jobs last month. The February unemployment rate was about 5.8 percent. That is a one-tenth of a 1-percent increase.

Mr. STARK. You are avoiding my question. Let us go back to Iraq.

Ms. CHAO. No, no. I am answering your question.

Mr. STARK. Tell me how it is going to help these people in this country when you throw money away in Iraq. Just answer me, Madam Secretary—

Mr. JOHNSON. Let the lady answer the question.

Mr. HERGER. The Secretary is a guest—

Mr. STARK. If you want to question the Secretary on your time, Mr. Chairman, you question her on your time.

Mr. HERGER. The Secretary is a guest. She deserves—

Mr. STARK. It is my time. If you would like me to yield, you could ask.

Mr. HERGER. The gentleman's time has almost expired—

Mr. STARK. Well, then would you be quiet, Mr. Chairman, so I could finish my—

Mr. HERGER. Order.

Mr. STARK. If you would shut up and let me finish.

Mr. JOHNSON. He is out of order.

Mr. STARK. Mr. Chairman, shut up. Now, Madam Secretary—

Mr. HERGER. All the Members of this Committee have the responsibility, as Members of the House of Representatives, to show courtesy—

Mr. STARK. To you?

Mr. HERGER. To our guest.

Mr. STARK. To you? Well, you just interrupted my time.

Mr. HERGER. The time has expired.

Mr. STARK. Ah, Mr. Chairman.

Mr. HERGER. The gentleman from Louisiana, Mr. McCreery.

Mr. SHAW. A point of order, Mr. Chairman.

Mr. HERGER. Excuse me, Mr. Shaw.

Mr. MCCRERY. I thank the Chairman for the time. Secretary Chao—

Mr. STARK. Would the gentleman yield? I had a few seconds left.

Mr. MCCRERY. Mr. Stark, I think you have used your time. Had you been pursuing a more worthwhile line of questioning, I might have yielded to you.

Mr. STARK. Oh, I see. So, jobs in this country aren't worthwhile. Thank you.

Mr. MCCRERY. That is not what you were asking about.

Secretary Chao, as you may know, I have been involved over the last few years working with representatives from the States trying to reform the administrative end of our unemployment system, and the Administration has proposed an administrative financing reform proposal, and I wonder if you could explain, briefly, the rationale for wanting to shift that responsibility or at least the responsibility for funneling the funds from the Federal level to the State level.

Ms. CHAO. Well, during the 1990s, the UI administration was funded below—we will acknowledge that—this proposal is actually good for the States, let me put it this way, because during an average year in the 1990s, the Federal Government took in approximately \$5.7 billion in dedicated Federal unemployment taxes every year, and the States received only \$3.1 billion for UI funding. So, for the majority of States, actually, and I have a little chart here which I would be more than glad to share with the Committee, in fact, an overwhelming majority of States paid in more in taxes than what they received to help the dislocated workers in their States.

Mr. MCCRERY. Most States, even when times were good, were complaining that they were not getting back from the Federal government money sufficient to administer the UI programs in their States; isn't that right?

Ms. CHAO. Yes, that is.

Mr. MCCRERY. Unfortunately, we are now back in bad times, economically, for the States. They are having to rein in their spending, and we are back in a deficit situation at the Federal level. So, from a budget standpoint, it is going to be more difficult for us to shift those funds to the States. As you pointed out, we are getting more money in from the States than we are paying out, and that helps obscure the rest of the operating deficit at the Federal level.

Have you thought about that and are you still going to press forward with these reforms that would shift that money out of Washington back to the States?

Ms. CHAO. We think it is good for the States. For example, last year there was such an excess balance within the Federal accounts

that \$8 billion was disbursed through a mandatory legislative intent that—it was called the Reed Act, and approximately \$8 billion were distributed last year, March of last year, to the States.

Mr. MCCRERY. Yes, the Reed Act distribution that we accomplished last year has been very helpful to the States. Some of the States were able to use that money to prevent a tax increase from taking place on their employer community, some States were able to increase UI benefits, and other States used that money to increase the effectiveness of their administration benefits.

So, the Reed Act distribution worked as we thought it would, and what the Administration is proposing is basically to continue that practice of the States basically keeping what they pay, what their employer community pays, in UI taxes for administration and letting them use that money as they see fit, whether it is to keep from increasing taxes, use it for a more efficient or more effective administration, or even increasing UI benefits.

So, I commend the Administration for putting forward this proposal and saying to us in the Congress that even though we are back in a deficit situation still, from a policy standpoint and from an effectiveness standpoint for our UI system, it makes sense to shift this from the Federal level back to the State level, and I look forward to helping with it.

Ms. CHAO. Thank you.

Chairman THOMAS. [Presiding.] I thank the gentleman. Does the gentleman from Florida, Mr. Shaw, wish to inquire?

Mr. SHAW. Just very briefly. I think here that there needs to be some clarity as to the records, particularly following the Statement by the gentleman from California, Mr. Stark.

You don't create jobs by increasing benefits for the unemployed. You put incentives to be employed, and you work toward the creation of jobs in this country. We had this debate when we went through welfare reform back in 1996, and it conclusively proved that if you put incentives and job training in place, that people will rise to the level of finding jobs.

We also know, statistically, that someone who is the recipient of a huge trust fund may very well not work. Somebody who is going to receive unlimited benefits, as pre-1996, to stay home, not to work and to have kids and not to get married, that it certainly encouraged that type of self-destructive behavior.

The real champion of welfare reform, I believe, and I have always believed, is particularly the single mom who has gotten out, become a role model for their kids and made something of themselves, and it is this human spirit that we need to work with.

I think to try to compare the rebuilding of a country that might very well be partially destroyed by war to an unemployment situation here in the United States, there is no match-up. You can't let one part of the budget be the enemy of the other part of the budget. You have got to work together in order to try to complete a complete budget. So, I just wanted to make that clarification.

Also, I think a lesson in history. When I first came on this Committee, as I recall, and I think I am correct on this, that we were hoping to attain 6-percent unemployment. Of course, we went way beyond that, and a lot of that had to do with welfare reform and the fact that what people did of themselves, the unemployed, did

make something of themselves. We believed in the human spirit and that paid off, and it paid off tremendously, in making better lives for many.

I think on the unemployment benefits that we have extended, the added incentive that we have built into those programs for people to go out and find work is going to prove to be very beneficial, and I think that it certainly will pay off.

Madam Secretary, I want to thank you for being here and your patience during one of the previous questioners. Thank you.

Chairman THOMAS. I thank the gentleman.

The gentleman's memory serves him correctly. The Chairs come and go, but since it is currently here, I believe it was the Humphrey-Hawkins Act (Full Employment and Balanced Growth Act 1978, P.L. 95-523) which declared full employment at a 6-percent rate. Does the gentleman from Michigan wish to inquire?

Mr. LEVIN. Yes, I want to talk about the program of extended benefits. I just want to say, I guess Mr. Shaw isn't here, I think to draw a lesson from welfare reform, linking welfare to work to the challenge of the unemployed is essentially mistaken. For the vast majority of people who are unemployed today that are looking for work, they are required to look for work. Most of them have been working most of their lives.

Let me just ask you about the extended program. How much is there today in the unemployment trust fund?

Ms. CHAO. It is about \$23 billion.

Mr. LEVIN. In the recession in the 1990s, how many weeks of extended benefits were there for most people?

Ms. CHAO. I believe it was 4 weeks at the time. The recession was worse. There was a recession with unemployment about 7 percent.

Mr. LEVIN. How many weeks were available for the unemployed under the extended program?

Ms. CHAO. It would be 26 weeks under the regular and then 13 weeks each additional.

Mr. LEVIN. In the early 1990s?

Ms. CHAO. There were four extensions. If I am not correct, I will—

Mr. LEVIN. How many weeks?

Ms. CHAO. Approximately 13 weeks each, and if that is not correct—

Mr. LEVIN. How many total weeks were available for the unemployed under the extended program?

Ms. CHAO. I will calculate that.

Mr. LEVIN. What?

Ms. CHAO. I will count that up. It was about 65 weeks.

Mr. LEVIN. In the early 1990s?

Ms. CHAO. I believe so, yes.

Mr. LEVIN. I don't know quite how you arrive at that. For most people in most of the States, they had 26 weeks, and then for those who were in high unemployment States they had more weeks. So, what we are talking about is now 13 weeks for the vast majority versus 26 weeks for the majority in the early 1990s, and then in some cases in many States they had beyond that because they were in high unemployment.

Ms. CHAO. That is correct.

Mr. LEVIN. So, let me ask you this. How many workers today have exhausted their benefits, do you know?

Ms. CHAO. Approximately, about a million.

Mr. LEVIN. Who have presently exhausted, the total, those are those who exhausted and are unemployed? How many all together have exhausted their benefits?

Ms. CHAO. It is a very dynamic figure, but it is about a million.

Mr. LEVIN. I think it is over 2.5 million—

Ms. CHAO. Those are those—

Mr. LEVIN. Who have exhausted their benefit at some point.

Ms. CHAO. Then many of them, approximately, 50 percent—

Mr. LEVIN. Have returned to work.

Ms. CHAO. Are still eligible.

Mr. LEVIN. Okay.

Ms. CHAO. The numbers are very—we need to talk about the numbers, and if I can—

Mr. LEVIN. Well, I am talking about the numbers, Madam Secretary. Look, there are over a million people today who have exhausted their benefits who are unemployed.

Ms. CHAO. Some of them have found new jobs.

Mr. LEVIN. No, no, no. Aren't there a million today who have exhausted their benefits who are unemployed, yes or no?

Ms. CHAO. Yes.

Mr. LEVIN. I read this article a week ago in the Wall Street Journal about a fellow named Wilcox. He was a white-collar worker, and he went in Canton, Massachusetts, on a street corner, and he said, "I need a job. Thirty-six years' experience insurance management," with his phone number.

Now, what do we say to the million people who have exhausted their benefits why we are not extending benefits, as we did in the early 1990s, beyond 13 weeks?

Ms. CHAO. I think—

Mr. LEVIN. I want you to say—

Ms. CHAO. I want you to find a new job. That is what I would tell them. I want to work with you to get a new job, and let us get the economic conditions so that you can get a new job.

Mr. LEVIN. Madam Secretary, he sent out over 500 resumes, he has been begging for a job. He stands on a street corner. He didn't want to tell his mother that he had done so. He was ashamed. He has worked all his life. What do you say to the Richard Wilcox's of this world, of this country?

Ms. CHAO. We want to help them.

Mr. LEVIN. Why don't you extend benefits beyond 13 weeks, as we did in the 1990s. What—

Ms. CHAO. The 1990s' recession was harsher, and it was deeper. As I mentioned, we want people to get new jobs, so let us work on the economic recovery so that the economy gets going again, so that people will be able to get new jobs.

Mr. LEVIN. So, your answer to him is the growth package? Let her just finish. Your answer is—

Chairman THOMAS. The Chair is more than willing to let her finish, but the gentleman has now asked a second question after his time has expired.

Mr. LEVIN. I just want to be clear, your answer to him is the growth package?

Chairman THOMAS. That may take longer than the time available.

Mr. LEVIN. All right, Mr. Chairman. Look, this Committee has had this issue before. I am asking her, in a responsible, respectable way, what the answer is to Mr. Wilcox and the million people who have exhausted their benefits and are out of work, and I want you to give him—I talked to him yesterday on the phone. I want your answer, so I can convey it to him.

Ms. CHAO. We will be more than glad to chat with the gentleman as well. We will be more than glad to work with your office. There are One-Stop Career Centers. Hopefully, that can offer some assistance. These are Career Resource Centers which offer core services, supportive services, and we would like to introduce him, if he does not know them already, to the One-Stop Centers.

Mr. LEVIN. He does.

Chairman THOMAS. I thank the gentleman. We have a 15-minute vote and two 5-minute votes following. We can get one additional questioner in if the gentlewoman from Washington wishes to inquire.

Ms. DUNN. Thank you very much, Mr. Chairman, and I appreciate your being here, Madam Secretary.

Chairman THOMAS. If the gentlewoman would suspend briefly. Following her inquiring, the Chair will recess. The Chair hopes that 5 minutes after the close of the last vote we can reconvene to continue the hearing. Madam Secretary, we appreciate your indulgence as we engage in something that is part of our ongoing, ordinary business.

Ms. CHAO. Sure.

Chairman THOMAS. The gentlewoman from Washington.

Ms. DUNN. Thank you. I want to thank you, Madam Secretary, for your help in addressing some very serious unemployment problems we have had in Washington State. We have worked well with the Department of Labor. We feel you are the most responsive Department of any in government right now, and that is great for us because we, indeed, have a huge problem with the 35,000 Boeing employees that have been let off and problems in the high-tech sector.

I want, particularly, to tell you how much I appreciate your help in assisting us in securing the \$15 million National Emergency Grant. Before this public hearing, we had a bipartisan meeting, where we were able to talk with you about how important it is to increase the budget for the National Emergency Grant. I want to underwrite that and support that. I think that is vitally important because you have more flexibility working with us, working with our governors to make sure that help gets to us very quickly.

The funds that you got to our State have been critical in providing for the displaced workers that are trying to search for jobs, counseling, training, education services, and so forth, so they can get back to work right away.

Further, your attention to the needs of dislocated workers in my State who are adversely affected by foreign competition has been highly noticed. Last year, the Department of Labor announced that

18,000 Boeing employees in the Puget Sound area were newly eligible for Trade Adjustment Assistance (TAA), and we appreciate that.

As you know so well, Washington State and our economy was impacted in a devastating way by the events of September 11, 2001, much more severely than by many other States, and it is because of the aerospace industry largely. Thirty-five thousand aerospace workers have lost their job, most of them in my district, where I have 25,000 workers, mostly on the commercial line, which is where the losses took place.

In addition, the unemployment rate in my State has continued to hover around 7 percent, much higher than the national rate at one point, the highest State in the Nation. I would like in the time that I have left on my question period to hear your comments on how the President's proposal is designed to help States like Washington address the current challenges that we have of unemployment.

Ms. CHAO. The President's proposal for economic job growth includes a very important provision called the Personal Reemployment Accounts. Basically, it gives people who are unemployed \$3,000 with which to decide what kind of training they would like to purchase and what kind of jobs they eventually would like to attain. They are also able to use the \$3,000 for supportive services, such as child care expenses and also transportation expenses.

If there is any money left over during a 13-week period, then that excess would be able to accrue to the individual, meaning that the person would be able to keep the balance for themselves.

This proposal gives workers, it empowers workers because it gives them the ability to decide for themselves what kind of training they want, rather than have to choose a training that someone has thrust upon them. They are also able to use this money for child care, and this is certainly very important for a lot of single moms. For those that want to relocate, for example, to another part of the country, if they so wish, or to pay for local transportation—commuting—expenses, they will be able to tap this fund for them to use as well. This will be new money. The Administration wants to make it available in fiscal year 2003, and we want to work with the Committee on it.

Ms. DUNN. Thank you, Mr. Chairman.

Chairman THOMAS. I thank the gentlewoman. The Chair indicates the Committee will stand in recess until 5 minutes after the conclusion of the third vote in this sequence. The Chair, once again, thanks the Secretary.

[Recess.]

Mr. HERGER. [Presiding.] The hearing will reconvene. The gentleman from Maryland, Mr. Cardin, to inquire.

Mr. CARDIN. Thank you, Mr. Chairman. Madam Secretary, it is a pleasure to have you before our Committee. You have a tough job, and we need to work together to deal with it. Let me follow up if I could on the role that the UI system needs to play during this time.

You and I have talked a little bit about the concerns that I have about the number of unemployed. We had another 300,000 this past month. The total number of people who have lost their jobs

in the last 2 years is about 2 million. I want to just challenge I think one of the Statements that you made about the severity of this recession, and I urge you to go back and just take a look at some of these numbers because, according to the information that has been given to me, the number of long-term unemployed is two-and-a-half times higher today than it was 2-years-ago, and the current level is roughly equivalent to the long-term unemployed in the 1990 recession.

So, I think we are now reaching that point that this has been a difficult time for those people that are unemployed, as it was in the 1990s.

I guess one of my concerns is that you say we have until May to reevaluate before the extension of the UI benefits, but as you know, Congress doesn't always work that quickly. We do need a little lead time for a policy to be approved by the Congress, and I would just urge you to try to get together with the congressional leaders on both sides of the aisle to come together with a program earlier, rather than later, dealing with the UI.

The other point that I mentioned to you a little bit earlier before the hearing is the fact that for every person that is looking for a job, there are three times as many unemployed as there are jobs available, and therefore the UI fund really has a critical role to play at this point in our economic history. We need to rely upon that, and people just cannot find jobs.

You and I have also talked about the fact that Mr. McCrery and I have been interested in the stakeholders group that met and offered some reforms. I am particularly concerned about the fact that low-wage workers are twice as unlikely to get UI as higher wage workers.

So, I think we have some problems in the system itself that need to be addressed sooner rather than later. I would just urge you to meet with us promptly to develop a policy. I know the Administration has not formulated one yet, as to what happens after this current level of extended benefits, but I think we should meet promptly on it, and I would just urge you to do that.

Ms. CHAO. I look forward to it.

Mr. CARDIN. Let me move to the second point on these accounts. I know that these reemployment accounts you have estimated to be \$3,000. I told you a little bit earlier that our projections are that, based upon the unemployment levels, the exhaustion levels during the last 2 years, that if the exhaustion levels continue, that these accounts may be as low as \$500. I would urge you to get us as much information as possible to indicate why the budget request will equal the \$3,000 that you are anticipating, and it would be useful if our Committee had that information. So, if you would please do that.

The last point I want to make is this: Your budget calls upon a reduction in the Federal Unemployment Tax Act (FUTA) tax, and I just question the wisdom of that in these uncertain times, when we use the unemployment fund to level out the good times and bad times in our economy, and we are now drawing more money out of the account than is coming into the account. That is what it is supposed to do during a recession, but we need to make sure that we have adequate funds for future responses in future recessions,

and I am not sure this is the right time to call upon such a dramatic reduction in Federal revenues to the Federal Unemployment Trust Accounts.

Ms. CHAO. If I can just quickly answer a couple points.

Mr. CARDIN. Sure.

Ms. CHAO. One is the \$3,000, we look forward to working with you on that. Three thousand dollars per account is approximately the amount that individual workers receive when they are unemployed, in terms of training and supportive services. So, that is kind of how we arrived at that.

As for the FUTA tax, the Department of Labor invests over \$71 billion. Take away the \$12 billion in training, and the remainder is UI. On top of that, there is \$23 billion in excess. We gave back \$8 billion last year. The average State is receiving only 55 cents on every dollar that they are submitting into the Federal system. So, we think that since the States are administering the system, that they should really have greater flexibility in managing it as well.

Mr. CARDIN. I would just point out they did receive more money back in FUTA taxes than were paid in, but we can go over these dollar amounts and try to work it out. Thank you, Mr. Chairman.

Mr. HERGER. Thank you. The gentleman from Georgia, Mr. Collins, to inquire?

Mr. COLLINS. Thank you, Mr. Chairman, and thank you, Madam Secretary, for being before the Committee this morning.

Before I ask a question of you, I would like to comment to the gentleman from Michigan who spoke with a worker who was standing on the street corner with the sign, "Work Wanted. Thirty-six years industrial management."

As an employer for 40 years, my answer would be to the gentleman that I have a job, but it is not industrial management. Are you interested?

Madam Secretary, I read, with interest, after the last census that we had something like 8 million illegal people in the country. Do you recall those type numbers?

Ms. CHAO. Yes.

Mr. COLLINS. I believe 4 million of them came from South of the border—Mexico—is that approximately the number that you remember?

Ms. CHAO. Probably 7 million.

Mr. COLLINS. I am sorry?

Ms. CHAO. Probably 7 million.

Mr. COLLINS. Four to 7 million.

Ms. CHAO. Yes.

Mr. COLLINS. What is the main reason for the majority of those people coming to the United States?

Ms. CHAO. I think people come for a variety of options. They want better opportunities. I would think that would be foremost.

Mr. COLLINS. In other words, to make it a little bit more simple because that is what I have to deal with is simple terms and facts. They are looking for work; is that a pretty good assessment of why a lot of them come, not 100 percent, but a lot of people come to this country—opportunity, work?

Ms. CHAO. Yes.

Mr. COLLINS. Do we have any numbers that show how many of these illegal immigrants are actually employed in the workforce?

Ms. CHAO. I would imagine that a significant number would be employed in the workforce.

Mr. COLLINS. Would it not be a pretty good assessment to understand that a lot of those who are working in the workforce have replaced people who were in the workforce and possibly now are in the unemployment roll?

[Pause.]

Mr. COLLINS. Just a guess, an assessment.

Ms. CHAO. I don't know that.

Mr. COLLINS. I didn't think you would. You are honest.

I remember as a young boy growing up, I heard the comment a number of times, and it was different then, this was 50 years ago, when an individual tended to be lazy, and wouldn't work, and wanted handouts, and liked to stand on the corner during the work hours. That person was classified as an individual who really just wouldn't work in a pie factory, a pie factory. It was supposed to have been an easy, "cream puff" job. In other words, they just didn't want to work. They wanted a handout or whatever they could do to get by or work for cash where it wouldn't be reported.

Madam Secretary, I have a real concern for the unemployed, and that is the reason I support the President's growth package, because it will create jobs, jobs that will be long lasting, because it will go to the workplace and help people to be more competitive as an American worker in a world market.

Today, we have provisions of law that make us noncompetitive, to a certain extent, and a lot of those are tax laws because we have tax provisions that differ from other nations. So, I think the President is on the right track by looking at those provisions, and one of them happens to be the double taxation on stock dividends. We differ there from many industrialized nations.

I am also concerned about a continuing program or rearranging or changing a program that will further the benefit structure because it is kind of like 50 years ago when the individual wouldn't work in a pie factory, they were wanting something in lieu of it. Benefits can be in lieu of a paycheck because they can still get by.

That is not what America is about. That is not what our workforce is about. That is not the ethic of the vast majority of the American worker. That is one thing we differ from here than in many other parts of the world. We have a work ethic in this country that supersedes all. That is the reason we have been so productive, but we are losing a lot of that.

Let me just sum up by saying that I am concerned about the unemployed across this Nation, as well as in San Francisco, and I hope the good people in San Francisco will put another one on the unemployed rolls for his disrespect for you, and for this administration, and for this establishment, and this body. Thank you, Madam Secretary.

Ms. CHAO. Thank you.

Mr. HERGER. Thank you. The gentleman from California, Mr. Becerra, wishes to inquire.

Mr. BECERRA. Thank you, Mr. Chairman. Madam Secretary, thank you for being here, and we welcome your participation, always, in this Committee.

I missed some of the questions and some of your testimony earlier, but I do want to get back to some of the questioning that I heard from the gentleman from Maryland, Mr. Cardin, address to you. It is the question with regard to unemployment. To me, it seems like the economy continues to show sluggish performance. Most economists are saying that the recovery that we were expecting actually last year or the early part of this year may not come until the latter part of this year, and that is, of course, if things move in a positive direction.

If we find ourselves in war, and it doesn't go the way the Administration believes, if we find that North Korea is obstinate in trying to negotiate with us, for any number of reasons, other economic circumstances, we might find ourselves still in economic difficult come the latter part of this year.

It seems that, given that we have got about a \$200-or-so-billion deficit for this year, increasing to more than that—perhaps \$300 billion—next year, that what we might want to do is prepare.

In terms of unemployment, with the unemployment numbers continuing to increase and over 300,000 people having lost jobs this past month, that we probably want to give not just the markets, but the American people some confidence about what they can expect.

When it comes to long-term unemployment, we are finding that more and more Americans are having a difficult time finding that next job. I am wondering if you can give us a better sense of what the Administration is planning, not necessarily what you are going to do or not necessarily what you are going to do this month, but should we find that come summer, we are still seeing persistent drags on the economy and the difficulties in decreasing unemployment.

Can you give us a sense of what the long-term vision is of the Administration with regard to unemployment? How will you address it so that we can try to ensure that those who are unemployed today will exhaust their benefits by summer, have some opportunities to know that the Federal government isn't going to just let them fall through the cracks.

Ms. CHAO. Well, the Federal government isn't going to let them fall through the cracks. Every year we, at the Department of Labor, invest about \$71 billion to help people who are unemployed, \$12 billion of which is in training. Obviously, we are in a recovery phase, but we are not satisfied, neither one of us, and this President is not either. We lost 1.5 million jobs during the attacks of September 11, 2001, and we are trying to come back from that.

The 300,000 people that you mentioned who were not able to find jobs this past month comprise 90,000 basically reservists. So, they have now moved from the civilian rolls into the military rolls, but they are obviously defending, they are engaged in the activity of defending our country.

We have approximately 48,000, also from loss in construction. That is because we have had a very harsh winter compared to the mild two winters. We are very concerned, obviously. We hope that

the President's economic growth plan will address short-term assistance to the unemployed with Personal Reemployment Accounts and then longer term with creating the economic circumstances through which job creation will occur.

Mr. BECERRA. Let us say we do not find that we are creating the jobs, the economy is not creating the jobs quickly enough, and you still have three people out there looking for a job for every job that is available. What can we tell folks come May, when those extended unemployment benefits run out for those Americans, what can we tell them today that we will be prepared to do come May?

Ms. CHAO. Well, we obviously don't want people to suffer. We all want to help. As we go toward spring/late spring, and we are monitoring the situation very carefully, we will see, at the appropriate time, whether that step is necessary or not.

Mr. BECERRA. Nothing—

Ms. CHAO. We want to help people get back to work. We want to help them get jobs.

Mr. BECERRA. What I hear you saying, and I think you said it before, was that you are monitoring. You are taking a look. It seems to me that, at some point, you will have to go beyond just taking a look and actually be prepared to do something, as we are, for example, with regard to Iraq. We are not just taking a look. We are preparing for the eventuality of war. We are preparing for the circumstances, so everything is in place.

Is there something going on right now that the Administration is doing to have in place, whatever mechanisms you decide to use, come May, when those extended employment benefits run out?

Ms. CHAO. We have been working on the President's economic growth and job creation plan, which was introduced on January 7, 2003. We have extended UI benefits for an additional 13 weeks, from December 27, 2002. As we go forward, the economy may change, current situations may change. So, we want to make sure that we are doing the right thing in terms of helping the unemployed.

Mr. BECERRA. So, I don't hear there is anything in place other than monitoring the situation for those who are losing their benefits come May.

Ms. CHAO. Let us see what happens to the economy as we get closer, because, again, we don't want to add the wrong incentive—the wrong stimulus, either.

Mr. HERGER. The gentleman's time has expired.

Mr. BECERRA. Thank you, Mr. Chair.

Mr. HERGER. Thank you. The gentleman from Kentucky, Mr. Lewis, to inquire.

Mr. LEWIS OF KENTUCKY. Thank you, Mr. Chairman. Madam Secretary, it is indeed an honor to have you before our Committee today.

Ms. CHAO. Thank you.

Mr. LEWIS OF KENTUCKY. As a fellow Kentuckian, it is an even greater honor. You alluded a little while ago in your testimony to problems with fraud and abuse in the unemployment benefits. Could you review for us some of the measures that are being taken to try to deal with this problem.

Ms. CHAO. We try very hard to be responsive to workers who need assistance. So, we try to get the unemployment checks out as quickly as we can, and we err on the conservative side; meaning that if there is sometimes a doubt, we pay the check out anyway because we don't want people to suffer.

Since we do that, there will be instances, approximately 8 percent of the time, in which we are making wrong payments. So, we are working with the various State Departments of Labor, we are working with the Office of the Inspector General within the Department of Labor to make sure that we are carrying out our duties correctly because the 8 percent of money that is paid to the wrong people or duplicate payments are basically money that could be better utilized to help others who really need the money.

Mr. LEWIS OF KENTUCKY. Thank you. That is all.

Mr. HERGER. I thank the gentleman. The gentlelady from Ohio, Ms. Tubbs Jones, to inquire.

Ms. TUBBS JONES. Thank you, Mr. Chairman. Good morning, Madam Secretary. How are you?

Ms. CHAO. Good. Thank you.

Ms. TUBBS JONES. Good. I want to focus in on, for a moment, the TAA health credit tax implementation. Has anyone asked those questions before I came?

Ms. CHAO. No, no. Go ahead.

Ms. TUBBS JONES. Great. I understand that the Administration is working to implement the TAA health insurance tax credit that was included in last year's trade bill.

Ms. CHAO. Right.

Ms. TUBBS JONES. Can you tell us how it is going, and specifically when you expect the credit to be available to people on an advance basis, and how the program will work in terms of identifying and notifying potential recipients, identifying and paying qualified insurers.

Ms. CHAO. I can give you the short answer or I can give you the long answer. I will start with the short answer.

Ms. TUBBS JONES. Okay, great.

Ms. CHAO. The short answer basically is in August. We will submit the long answer in writing.

Ms. TUBBS JONES. Okay.

[The information follows:]

The Health Coverage Tax Credit (HCTC) is a benefit that is available to workers who are certified for Trade Adjustment Assistance (TAA) and are either receiving trade readjustment allowances under the program or would be eligible to receive such allowances except that they have not exhausted unemployment compensation; workers who are receiving benefits under the Alternative Trade Adjustment Assistance (ATAA) program; and certain individuals age 55 or older who are receiving benefit payments from the Pension Benefit Guaranty Corporation (PBGC).

The HCTC is a Federal tax credit equal to 65 percent of the monthly amount paid by an eligible worker for coverage of the worker and qualifying family Members under "qualified" health insurance. "Qualified" health insurance includes COBRA coverage, coverage under a group health plan that is available through the employment of the eligible individual's spouse where the employer pays less than 50 percent of the cost of coverage, individual health insurance coverage obtained at least 30 days prior to separation, and certain kinds of State-provided coverage if the State elects to offer such coverage.

The end-of-year tax credit was first available in December 2002, and workers could claim that one-month credit on their 2002 tax returns. Beginning August 1, 2003, eligible individuals are able to receive the tax credit on an advance basis (i.e.,

the 65% credit is available each month to pay for the health premium), or as an end-of-year credit when they file their 2003 tax return.

Three Federal agencies share responsibility for implementing the tax credit and ensuring that the benefit is made available to eligible individuals: Department of Labor, Department of Health and Human Services and the Treasury Department.

1. The Treasury Department is responsible for managing the tax credit. An HCTC office has been established in the Internal Revenue Service.
2. The Department of Health and Human Services is responsible for certifying qualified State health plans and assist States with establishing high-risk pools.
3. The Department of Labor's Employment and Training Administration is responsible for certifying petitions for Trade Adjustment Assistance and providing grant funds to States to establish the necessary administrative infrastructure for the HCTC, as well as "bridge" payments for qualified health insurance for eligible individuals between December 2002 and August 1, 2003 (when the credit is available on an advance basis). The Pension Benefit Guaranty Corporation (PBGC) is responsible for submitting a listing of potentially eligible PBGC recipients to the HCTC office at the IRS.

Once the Department of Labor certifies a petition for Trade Adjustment Assistance, the State Workforce Agency (SWA) is responsible for identifying eligible TAA and Alternative Trade Adjustment Assistance (ATAA) recipients, and for notifying them about the availability of the tax credit. The SWA will also provide the names of individuals to the HCTC office in the IRS, which will determine eligibility for the tax credit. The vehicle for reporting this information to the HCTC office is the Inter-State Connection (ICON) network, which is currently used by the SWA for unemployment compensation purposes.

Beginning August 1, 2003, the HCTC office will use the ICON claimant/recipient information to verify eligibility for the advance credit payment of 65% of the qualified health insurance premium. Individuals are responsible for the remaining 35% and will provide the payment through the mechanism established by the IRS.

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Ms. CHAO. The other thing, also, is the TAA applications, and this was the subject of some discussion before the hearing, is more complicated. We can make available some bridge National Emergency Grants, and we will be more than glad to work with you on that. National Emergency Grants are an easier vehicle for us to help people.

The TAA applications, especially now with its new form, is a very lengthy and cumbersome process, and so we are not thrilled with having to go through that process either. If some of your constituents are having problems, let us work together to address that.

Ms. TUBBS JONES. Let me ask you, it is my understanding that you have already awarded two contracts for administering the TAA program; one to assess the administrative issues and participation by individuals, and one to administer the advanceable tax credit.

I understand that this second contract authorizes up to \$70 million this fiscal year alone. Of course, these costs are in addition to the staff time and related costs of three Federal agencies. Are the costs of implementing this program reflected in the President's budget?

Ms. CHAO. Yes. Number one, that is apparently the Department of Treasury's jurisdiction. The other thing, also, is we do have these National Emergency Grants which we are giving out to some States so that they can set up the capacity with which to evaluate the health care component of TAA. We do have these National Emergency Grants, but the majority of that is in the Department of Treasury.

Ms. TUBBS JONES. I also understand that the tax credit can be used for Consolidated Omnibus Budget Reconciliation Act continu-

ation coverage, for other coverage arranged by a State or in limited circumstances for individual coverage. Can you describe how States plan to arrange for coverage for these tax credit recipients, given that the tax credit is theoretically available now, though not advanceable? Can you tell me how many States have plans in place and how many tax credit recipients do you estimate will be enrolled in each of the types of qualified coverage?

Ms. CHAO. Tax credits, in general, are pretty much in the Department of Treasury, but I will try, to the extent that I can, I will try to get you some answers to that.

Ms. TUBBS JONES. Except that this TAA is actually within your jurisdiction, though, right?

Ms. CHAO. Yes, but the tax credits are something that the Department of Treasury administers. It is very complicated. That is why the National Emergency Grants are so much easier for us to administer.

Ms. TUBBS JONES. Do you have input into what the Department of Treasury does? We don't operate in a vacuum? The Departments interact somewhere, correct?

Ms. CHAO. Right. Well, we would like to think that the Departments work together on topics like this, but it does take coordination, which can take time.

Ms. TUBBS JONES. So, you are saying August will be—

Ms. CHAO. Pretty much.

Ms. TUBBS JONES. I have no further questions. Thank you very much.

Ms. CHAO. I will be more than glad, as I mentioned, to work with your office on that.

Ms. TUBBS JONES. I would love for you to give—my earlier questions, you are going to send me some written responses—

Ms. CHAO. Right.

Ms. TUBBS JONES. I appreciate that. Thank you. Thank you, Mr. Chairman.

Mr. HERGER. Thank you. Now, the gentleman from Illinois, Mr. Weller, to inquire.

Mr. WELLER. Thank you, Mr. Chairman. Madam Secretary, I thank you for your appearance before our Committee. I know this is a historic day. It has been some time since the Secretary for the Department of Labor has appeared before the Committee on Ways and Means, and we appreciate your commitment not only to your job, but also to working with our Committee.

Ms. CHAO. Thank you.

Mr. WELLER. I also want to thank you for an initiative that you and Assistant Secretary DeRocco have been working on, which is of great benefit to workers in Illinois. I know questions have been raised about the type of initiatives to help those who are dislocated, workers who are unemployed and in need of skills that bring them into the 21st century economy. Of course I want to thank you for the new initiative we now have in Illinois and Ohio, the Integrated Systems Technology program, which will help workers get the skills to essentially be those who operate the robots and maintain the robots in our manufacturing facilities, since we have an impending shortage of those kind of workers.

The good thing about this program is they will pretty much be guaranteed a job because of those skills, and the demand for those skills, and they will be high-paying jobs. So, I commend you and Assistant Secretary DeRocco for your leadership on this program, which will help retrain Illinois workers, and I hope to see it successful—

Ms. CHAO. Thank you.

Mr. WELLER. To see it expand nationwide, and it will, of course, affect Illinois State University, as well as five community colleges in the State I represent, including Kankakee Community College within my own district, as well as Illinois State University. So, for that, I say thank you.

Also, on the Personal Reemployment Accounts proposal, I would like to submit to the record some information. We always like to check the legislative history on some ideas, and while I am very supportive of the proposal you brought before us, and the Administration is advocating, I would note that the Personal Reemployment Accounts idea is not a new one. In fact, in the 103rd Congress, Chairman Rostenkowski offered H.R. 4040 (Reemployment Act of 1994) legislation which had the cosponsorship of 94 Democrats, including, obviously, Chairman Rostenkowski, but also the former Democratic leader, Mr. Gephardt, Mrs. Pelosi, and Members of this Committee, Mr. Cardin, Mr. Lewis, Mr. Levin, Mr. Neal, Mr. Rangel, Mr. Stark, Mr. Matsui, and Mr. McDermott. They all cosponsored legislation basically identical to the Administration's Personal Reemployment Accounts proposal.

Mr. Chairman, I would like to submit this into the record, a copy of the legislation as well as the cosponsors.

Mr. HERGER. Without objection.

[The attachment is being retained in the Committee files.]

Mr. WELLER. So, it is not a new idea, and I certainly commend you for coming up with new ideas to try and solve the challenge of how do we give those who are unemployed the opportunity to go back to work, move up the economic ladder.

I also want to commend you for the way you have presented this proposal today before the Committee.

One question I do not believe has been addressed yet, and that is the Personal Reemployment Accounts that recently came out of the Committee on Education and the Workforce, as they provide services for child care, and the payment of reemployment bonuses. What is the Administration's view on whether or not these accounts, and any moneys that a worker with the reemployment bonus were to receive, and how it should be treated from a tax standpoint? Should it be considered income? Has the Administration made a recommendation on that?

Ms. CHAO. I believe the portion that is used to purchase training is not taxable, but the supportive services are, but I will get a definitive answer for you on that.

Mr. WELLER. That would be helpful because if it has tax consequences, we certainly need to consider that as we move the legislation through this Committee. Thank you, Madam Secretary. I look forward to working with you, and I have enjoyed the opportunity to work with you.

Ms. CHAO. Thank you.

Mr. WELLER. Mr. Chairman, thank you for the opportunity to question.

Mr. HERGER. I thank the gentleman. I want to conclude by thanking Secretary Chao for appearing before our Committee. Again, as we recognized earlier, I believe you are the first Secretary from the Department of Labor to appear before our Committee since 1993. Thank you for your patience. I also want to commend you for an outstanding job that you are doing for our country, for President Bush, for all of us.

Chairman THOMAS. With that, this hearing is adjourned.

[Whereupon, at 12:08 p.m., the hearing was adjourned.]

[Submission for the record follows:]

**Statement of Daniel M. Steen, Executive Board Member and Chairperson, New York State Public Employees Federation, AFL-CIO, Albany, New York**

Chairman Thomas, Ranking Member Rangel, and distinguished members of the Committee on Ways and Means, I appreciate the opportunity to submit written testimony concerning the President's budget for the U.S. Department of Labor for the fiscal year 2004.

The President's proposal is of critical interest to the 53,000 member NYS Public Employees Federation, AFL-CIO (PEF), as nearly 3,000 of our members are the professional and technical employees of the New York State Department of Labor, an agency that is approximately 95% federal funded. Our members work making determinations on unemployment insurance claims, matching qualified job seekers with employers, and protecting the public in a myriad of ways such as inspecting the safety of amusement rides and ski lifts.

Since the establishment of the unemployment insurance system and a national labor exchange, the States have acted as agents of the Federal Government in delivering these important services. Together, these programs have helped our nation weather many periods of economic uncertainty. Providing unemployed workers with funds to meet basic needs, such as food and shelter, and by assisting workers find new employment are among our most important safeguards that help keep a downturn from becoming recession, and recession from becoming a depression. These are national interests that require a national, coordinated response.

The President's proposal to reduce Federal Unemployment Tax Act (FUTA) from current levels, beginning in 2005 to .02% in 2009 does nothing to improve the system and effectively creates an unfunded mandate that will require States to increase their U.I. taxes once the Reed Act distributions have been exhausted. The .02% funding level will only support the U.S. Department of Labor. If the problem with the FUTA tax is that the Federal Government collects too much from employers, while at the same not distributing enough of the collected funds to the States to run the system, surely these problems can be corrected without abandoning a system that has served us well for decades.

Given the severe fiscal crisis facing State governments, few States seem likely to invest State funds to improve the Unemployment Insurance system. This will be aggravated by the fact that the Administration of the system will be forced to compete for funding from the same pool of money that pays benefits. For example, according to the GAO report Unemployment Insurance States Use of 2002 Reed Act Distribution (GAO 03-496, March 2003), New York State used all \$491.3 million that it received to pay benefits or repay federal loans. NY did not invest a single dollar in the system. Those States that did invest some of the Reed Act funds in their system are unlikely to continue their investment with State dollars once the Reed Act distributions have been exhausted.

The availability of the Reed Act funds makes this proposal seem attractive in the short run. In the long run, this concept simply abandons a system that has served the nation well for many decades. The system could certainly be improved, but does not need to be discarded.

The President's proposal also threatens the existence of a national employment service. While the lack of specific details available on this portion of the budget proposal make it difficult to critique, providing funding through a block grant, rather than dedicated funding, is no guarantee we will continue to have a national job bank. PEF members proudly staff America's Job Bank, which connects the job banks operated by each State employment service. It is the existence of the national job bank that enable the many entities with whom we partner to play a role in con-

necting employers with skilled workers. Without a nationally funded labor exchange, each grantee will be left to recreate the basic tools they need to function. A block grant arrangement would also break the long standing link between the U.I. system and the employment service. This would effectively eliminate the requirement that U.I. benefit applicants make an active search for work. We believe it is essential that these services be maintained as a public employment system administered competently and fairly by qualified civil servants.

The Migrant Seasonal Farm Worker program is an important component of the national labor exchange. The population served is at risk, in part because of the very nature of their constantly moving existence. States alone are simply not equipped to provide services to a population that will shortly move beyond its borders.

Programs which the States operate in partnership with the U.S. Department of Labor could certainly benefit from many improvements and enhancements. The President's proposals offer nothing of the kind. In exchange for short term Reed Act disbursement funds, which are available because of a pattern of under funding of the U.I. and employment service systems, these important employment programs will become the responsibility of the States after 2009. States will make different decisions as to how much funding they will provide for these programs which will create a disparate and uncoordinated employment services program.

Thank you for the opportunity to provide information on these important issues.

