Republican Talking Points on Democrat Proposal to
Expand Unemployment Benefits and Create a New Wage Insurance Program
March 2007

1. **The Democrat proposal raises Federal taxes by an estimated $40 billion over 5 years, including by imposing the first new Federal payroll tax since 1965 when Medicare was created.**

    a. The Democrat proposal creates a new Federal payroll tax. This new tax will collect about $31 billion over 5 years, which may not even be enough to pay promised "wage insurance" subsidies.
    b. Payroll taxes discourage hiring and wage growth – exactly the "problems" a wage insurance proposal is supposed to address.
    c. The Democrat proposal also would extend the Federal unemployment surtax – a "temporary" tax created in the 1970s. This will raise taxes $7 billion.

2. **The Democrat proposal creates a new system of wage subsidies for workers earning as much as $100,000 per year.**

    a. A current pilot program makes "wage insurance" subsidies available to workers laid off due to trade who take new jobs paying up to $50,000 per year.
    b. The Democrat proposal doubles the maximum income for such wage subsidies to $100,000 per year and makes these subsidies available to every unemployed worker who takes a lower paying job.
    c. The new Federal payroll tax would pay for these wage subsidies. But there is no guarantee the initial tax rate *(0.01 percent)*, wage base *(up to about $100,000)*, or annual maximum tax *($100 per worker – or twice the current maximum Federal unemployment tax of $56 per worker)* will be sufficient to pay promised benefits.

3. **Even as Democrats promote State flexibility in operating welfare programs, the Democrat proposal's unemployment benefit expansions violate the principles of State flexibility behind the Federal/State unemployment program since the 1930s.**

    a. Since the inception of unemployment benefits in the 1930s, States have determined benefit eligibility and set appropriate tax rates.
    b. The Democrat proposal turns this principle on its head by bribing States into expanding benefits now using a one-time infusion of $7 billion in Federal funds, which will force States to raise State taxes later to keep paying higher benefits.

4. **The Democrat proposal arbitrarily creates individual and State winners and losers.**

    a. The Democrat bill will subsidize current high tax and benefit States, including States that already pay unemployment benefits to those seeking only part-time work or who quit their jobs because their spouse is relocating to another State.
    b. Low-benefit States could access added Federal funds only by expanding eligibility to cover more workers, requiring higher taxes in the long run and hurting job creation.
    c. On wage insurance, the Democrat bill creates a new subsidy rewarding individuals and businesses that move from high-wage States to lower-wage States, including individuals who take jobs paying as much as $100,000 per year.