

Statement for the Record
Senator Ron Wyden
Ways and Means, Human Resources Subcommittee
Hearing on Benefits for the Long-Term Unemployed
October 6, 2011

Thank you Chairman Davis and Ranking Member Doggett for holding this hearing on benefits for the long-term unemployed. In too many cases, the current unemployment assistance programs allow the experience and expertise of America's unemployed workers to sit on the sidelines. I'm here today to describe an alternative approach that gives the unemployed the ability to start their own businesses and get in the game— self-employment assistance (SEA). In Oregon, we've got this program up and running and think other states should be encouraged to do the same. By failing to take advantage of self-employment assistance, we're missing an opportunity to not only help currently unemployed workers but also to help our economy grow and create more jobs. I know this program works—its record in Oregon is strong and can be found in letters and testimony from individuals who have used the program.

Take, for example, Paul Clements. Mr. Clements had worked as the Quality Manager at Lumina Pacific Corp's laminated veneer mill in Burns, Oregon for 16 years when the mill was forced to shut its doors in 2007. This was and still is a financial challenge for the community, and the closest work in his field of expertise was 500 miles away. It was a near impossibility to move in a market where families could not sell their homes. To make the equation more of a challenge, Mr. Clements was told that in order to receive unemployment, he had to either look for work or enroll in school. "At the age of 51 and two degrees already under my belt I decided not to explore the education route," said Mr. Clements. And through the use of SEA benefits, he was successfully able to use his experience to start his own business producing full color banners, signs, and printing and graphics projects. Speaking about his experience, Mr. Clements said, "starting a business in this economy has been a challenge, but the right choice. I have made the two year bench mark and still swimming above water thanks to the community that has supported my business venture."

It is critical that we continue to allow unemployed workers to receive the emergency benefits that have been available throughout the economic downturn. To discontinue benefits now and create a cliff would force both consumer spending and consumer confidence to decline, creating only more problems. More homes would go into foreclosure. More debt would go unpaid. And any progress we make towards economic recovery could come to a blaring halt.

Nearly every economist, not to mention the Congressional Budget Office, has told us that unemployment benefits have one of the biggest bangs for the buck when it comes to improving the economy.

But we should be thinking more creatively about how to use unemployment benefits to create jobs through entrepreneurship. We talk often about the benefits of small businesses in this country, yet our unemployment insurance programs actually prevent aspiring entrepreneurs from putting their ideas to work. Under the unemployment insurance systems in most states, if you stop looking for a job or you turn down a job, you lose your unemployment benefit even if

you're working to start your own business. States with active self-employment assistance programs, like Oregon, allow a small percent of the unemployed to focus full time on starting their own business while drawing down their unemployment benefits in the form of self-employment assistance. Anyone who has started a new business knows that getting it off the ground is a full time job in and of itself, and allowing would-be UI recipients to focus full-time on their new business vastly increases their likelihood of success. Rather than rely on others to create jobs for them, self-employment assistance allows determined entrepreneurs to create jobs for themselves and others.

The President's proposal is a step in the right direction; it allows states to quickly enter into an agreement with the Department of Labor and allow the long-term unemployed, those on extended unemployment compensation, to draw down their UI benefits in the form of self-employment assistance. However, this does little to encourage states to make self-employment assistance a part of their permanent strategy. We must be more far-sighted. We ought to provide states with a little assistance so that they can start self-employment programs of their own—not just for periods of extended unemployment compensation.

I want to be clear: this is no giveaway. In order to get this benefit, unemployed workers have to meet the same wage and hour requirements as they would to receive UI and they must prove they have a viable business plan. The beneficiaries of self-employment assistance really have something to offer—they have solid work experience and solid ideas; and put into action, that combination can snowball into a successful business with multiple employees.

There are 2.5 million micro businesses in the US, representing 88 percent of all businesses. They generate \$2.4 trillion in receipts, account for 17 percent of GDP, and employ more than 13 million people. If one out of every three of these businesses hired just one additional employee, the US economy would achieve full employment. Expanding self-employment assistance helps us get there.

A study by the Department of Labor found that self-employment participants were 19 times more likely than eligible non-participants to be self-employed at some point after being unemployed. Moreover, they were four times more likely to obtain employment of any kind. The average cost to create each of those jobs is \$3,350. According to estimates from Princeton economist and former Federal Reserve Board Vice Chairman Alan Blinder, it takes about \$93,000 worth of garden-variety fiscal stimulus to create an average job. Job creation through SEA is an incredible bargain.

This program has been creating jobs and businesses in Oregon for nearly two decades. Earlier this year, Pat Sandlin—who coordinates Oregon's program—conducted an informal "census" of enrollees since 2004. He found that 77 percent of businesses started by SEA beneficiaries are still up and running. And according to Mr. Sanderlin, the companies' combined annual payroll totals \$7,888,210.

Despite widespread support for self-employment and entrepreneurial programs, only a handful of states offer SEA, and those that do take advantage of it typically administer benefits to a small share of the unemployed. Only about 2,400 Oregonians have used the program since its inception

in 1995. Though states currently have the option of taking advantage of self-employment assistance, the administrative costs to start a new program often prevent them from doing so. And because federal law prevents self-employment benefits from being paid out while an individual is in a period of extended unemployment, the long-term unemployed cannot take advantage of the program.

My legislation encourages states to utilize self-employment assistance by:

- 1) Allowing the long-term unemployed who remain eligible for regular or extended unemployment benefits to draw down those benefits in the form of self-employment assistance;
- 2) Providing technical assistance and model language from the Department of Labor for states that create new self-employment programs; and
- 3) Providing financial assistance to aid states in establishing, implementing, improving and/or administering self-employment programs.

Self-employment benefits can serve as a guaranteed source of startup capital for businesses. And unlike traditional unemployment insurance, workers who successfully exit this program by starting their own business can create more new jobs as business expands. When unemployment is high and workers face extended periods of joblessness, this is exactly the type of program we should embrace.

Again, I appreciate the chance to testify today and would welcome the opportunity to work together to promote entrepreneurialism and small business development.