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February 8, 2011

Obama Plans to Rescue States With Debt Burdens

By MICHAEL COOPER and SHERYL GAY STOLBERG

President Obama is proposing to ride to the rescue of states that have borrowed billions of dollars from the federal government to continue paying unemployment benefits during the economic downturn. His plan would give the states a two-year breather before automatic tax increases would hit employers, and before states would have to start paying interest on the loans.

The proposal, which administration officials said would be included in the 2012 budget that the president is scheduled to unveil next week, was greeted coolly by Republicans on Capitol Hill, who warned that the plan would ultimately force many states to raise their unemployment taxes in the years to come.

But the White House is calculating that the proposal will ultimately appeal to Republicans because it involves a tax moratorium right now for hard-hit states during a still-fragile economic recovery.

Administration officials will make the case that the plan helps the economy and states in the short run, while bringing overdue changes to the unemployment insurance system in the long run. And Republican lawmakers could find themselves under pressure from Republican governors, whose states owe the federal government billions of dollars.

The administration is also betting that employers will back the proposal, especially in states where their taxes would otherwise go up. Michigan, for instance, owes the federal government \$3.7 billion it borrowed to pay unemployment benefits. Under current law the state would be forced to pay \$117 million in interest to the federal government this fall, and the federal tax on employers would automatically step up each year to repay the debt.

The state's newly elected Republican governor, Rick Snyder, has been lobbying for relief; his press secretary, Sara Wurfel, said that while they would need to see the details of the plan, they would "very likely welcome the much-needed relief."

Robert Gibbs, the White House press secretary, said, "We are giving help to some states who have had to borrow and not been able yet to pay back."

The states are in a tough spot. Many entered the **recession** with too little money in their unemployment trust funds, and they quickly ran through what little they had as unemployment rose and remained stubbornly high month after month.

With their own trust funds depleted, 30 states borrowed \$42 billion from the federal government to continue paying unemployment benefits.

The federal stimulus act gave states a break on the interest for those loans for nearly two years, but that grace period ended Dec. 31. That has left hard-hit states, which have already laid off employees, cut services and raised taxes, facing an estimated \$1.3 billion in interest payments to Washington due this fall.

Even more worrisome, to some states, is that current law would effectively raise taxes on employers by about \$21 per worker in nearly half the states so they could start paying down their debt, which states worry would put pressure on businesses that have already been reluctant to hire in the downturn.

In his budget, officials said, Mr. Obama will call for deferring interest payments on the debt and postponing the automatic tax increases. Then, in 2014, to bring that money back into federal coffers,

the administration proposes to raise the minimum level on which employers pay taxes.

Current law requires states to collect unemployment taxes on at least the first \$7,000 of income; that minimum has not been raised in decades.

The president's proposal would raise that minimum taxable wage base to \$15,000. The rate of the federal portion of the unemployment taxes would then be lowered, so the proposal would not raise federal taxes on states that do not owe the federal government money. But it would speed the rate at which states that do owe money repay the federal government, and allow states to collect more unemployment taxes to rebuild their trust funds if they do not lower their tax rates.

It was that prospect — that the higher wage base would lead to higher taxes for states after 2014 — that drew rebukes from Republicans in Congress.

Representative Dave Camp, Republican of Michigan, who is the chairman of the House Ways and Means Committee, dismissed the plan. “We need to reform our unemployment programs, but any plan that relies on more than doubling the tax base and then continuing to raise payroll taxes in perpetuity isn't going anywhere in the House,” he said in a statement.

But if nothing is done, taxes will go up much sooner: employers in three states are already paying higher federal unemployment taxes because they have been in debt to the federal government longer, and soon nearly half the states could be in their position.

The Center on Budget and Policy Priorities and the National Employment Law Project, two research organizations that are releasing a report on Wednesday calling for something very similar to the administration's proposal, calculated that delaying the automatic tax increases until 2014 would save employers \$5 billion to \$7 billion in taxes.

The Obama administration plans to hammer that point. “Our view in response to anyone who wants to do nothing,” said a senior administration official, “is that their plan is about increasing taxes in some

of the hardest-hit states involuntarily in 2011 and 2012, as opposed to giving states a choice on how to repay the federal government starting in 2014.”

Republicans in Congress might feel pressure from their counterparts in statehouses around the country: states with Republican governors, including Florida, Indiana, New Jersey, Pennsylvania and Wisconsin, owe the federal government billions of dollars.

And 18 states have already raised their minimum taxable wage base to \$15,000 or more, according to the [National Association of State Workforce Agencies](#).

Iris J. Lav, a senior adviser at the Center on Budget and Policy Priorities and a co-author of the report, said that the unemployment system has “a constellation of problems that need to be solved.”

“The near-term problem is the economy is not yet O.K.,” she said. “And both the interest payments and the principal repayments are cutting into employers, and it makes great sense to postpone them. The larger question is how you get states to solvency.”



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