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DO RECENT IMPROVEMENTS IN THE LABOR MARKET JUSTIFY ENDING THE FEDERAL UNEMPLOYMENT BENEFITS PROGRAM?

By Isaac Shapiro

For the time being, Congress has let the federal Temporary Extended Unemployment Compensation (TEUC) program expire. Any individuals who have exhausted their regular unemployment benefits since the week that began December 21 have been ineligible for TEUC aid. Although substantial support for resuming the program remains in Congress and cuts across party lines at least to some degree, opponents of its continuation — including key Republican House leaders — have argued that recent improvements in the economy and the labor market show the program is no longer needed.

This analysis examines that argument, in part by comparing the health of the labor market today to its health when the temporary federal unemployment benefits program of the early 1990s was ended (House Majority Leader Tom Delay, among others, has said that this comparison justifies ending the TEUC program now), as well as by assessing today's labor market relative to the labor market when the TEUC program began in March 2002. As the box below indicates, the labor market is far from healthy enough to end the TEUC program.

Key Findings

- There are 2.4 million fewer jobs than when the downturn began.
- Job growth has slowed recently. From July to October, an average of 78,000 jobs was created per month. From October to December, an average of 22,000 jobs was created per month.
- Even at twice the average pace of job creation over the past five months, it would take until October 2005 before the 2.4 million lost jobs are recovered.
- 80,000 to 90,000 jobless workers are running out of regular, state-funded unemployment benefits each week and are in need of federal aid. Many of these workers have cut back on food purchases and health care.
- Compared to when the temporary federal benefits program of the early 1990s phased out:
  - About 100,000 more workers each month now are exhausting their regular benefits.
  - Even after adjusting for labor force growth, in 39 states more jobless workers are now exhausting their regular benefits. In 17 states, exhaustees have risen 50% or more.
  - There have been far fewer months of job growth, and much less job creation.
- Compared to when the TEUC program began in March 2002, there are 357,000 fewer jobs and the number of long-term unemployed workers is 43 percent higher.

The current state of the labor market suggests that upon its return January 20, Congress should immediately act to resume the TEUC program and to make assistance retroactive to those who exhausted their regular benefits while Congress was away. This analysis also examines several other issues related to the TEUC program. It finds that contrary to the claim that continuation of the TEUC program would serve to prolong unemployment spells and thereby retard economic recovery, continuing the program would serve to boost the economy. It also finds that there is ample room within the federal unemployment insurance trust fund both to extend the program and to make some modest, but necessary, improvements in it.

Taken together, these findings suggest the Administration should end its silence with regard to the phase-out of the TEUC program. President Bush and other Administration officials have yet to indicate whether they support ending the program or prefer that it continue. When asked about the Administration's position on the issue during the White House's December 11 press briefing, for instance, the White House Press Secretary studiously avoided answering the question. (The full exchange can be found in Appendix 1.) If the Administration were to speak up in support of resuming the program, the likelihood of the program resuming would be greatly enhanced.

Current Labor Market Conditions

> "Looking ahead, members [of the Federal Reserve Board's Open Market Committee] generally anticipated that an economic performance in line with their expectations would not entirely eliminate currently large margins of unemployed labor and other resources until perhaps the latter part of 2005 or even later."
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> Minutes of the October 28, 2003 meeting of the Federal Open Market Committee, released December 11, 2003

The TEUC program was established in March 2002 to provide additional weeks of federally-funded unemployment benefits to workers who have received all of their regular, state-funded unemployment benefits but still have not found a job. TEUC typically provides up to 13 weeks of benefits. The program has been extended on two occasions, with the most recent extension ending in late December.

- *Individuals who exhausted their regular benefits prior to December 21 were eligible for TEUC benefits.*[1] For example, an individual who received four weeks of benefits prior to December 21 would be able to receive nine more weeks of benefits, so that he or she received the full complement of 13 weeks of TEUC benefits.

- *No individuals, however, who exhausted their regular benefits since the week that began December 21 have been eligible for TEUC benefits.* Unless these individuals live in one of the small handful of states that qualify for the federal-

[1] There was a marginally different cut-off date — December 22 — in New York.

state unemployment extended benefits program or have a state additional benefits program, they will receive neither a paycheck nor an unemployment check.

As the citation from the meeting of the Federal Reserve Board's top policy makers indicates, despite recent economic growth, the current labor market is far from healthy and may not regain its health for some time. This can be seen, first, by looking at the number of jobs in the economy and how that number has changed in recent months.

Pace of Job Growth Has Slowed

Month	Job Growth From Previous Month
August	35,000
September	99,000
October	100,000
November	43,000
December	1,000

- The number of jobs in the economy has increased in each of the last five months, but by quite modest amounts in most months, and hardly at all in the latest month. Just-released data for December showed jobs rising by an almost imperceptible 1,000. (These data come from the Labor Department's "payroll survey.")[2]

- Only a relatively small fraction of the jobs that had been lost as a result of the downturn have been recovered. In December 2003, there were still 2.4 million fewer jobs than there were in February 2001, the month employment peaked before the downturn officially began.

- Over the past five months, 278,000 jobs were created — an average of 55,600 jobs per month. At this pace of job creation, it would take until August 2007 to regain all of the jobs that have been lost. Even at double the recent pace of job creation, it would not be until October 2005 before those jobs would be recovered.

The ongoing weaknesses in the labor market are especially acute for the long-term unemployed. The long-term unemployed — individuals who have been out of work for at least half a year and are still unable to find a job — constitute the precise group that the TEUC program is designed to assist.

- There were 1.9 million "long-term unemployed" workers in November, constituting more than one in five — 22.3 percent — of the unemployed. With the exception of five months (four of which were August, September, October, and November 2003), the long-term unemployed now make up a larger share of those out of work than at any time since January 1984.

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[2] The payroll survey is the survey that the government has typically highlighted, and analysts have typically used, in assessing employment trends. Nonetheless, some have recently chosen to emphasize the employment trends shown by the government's "household survey." The employment trends depicted by the household survey are not as dismal as the trends depicted by the payroll survey, although even according to the household survey, job trends during this recovery are substantially worse than during the typical post-World War II recovery. In recent months, institutions and analysts such as the Congressional Budget Office (in its August 2003 report, *The Budget and Economic Outlook: An Update)* and the Commissioner of the Bureau of Labor Statistics (in testimony before the Joint Economic Committee on September 5) have reaffirmed that the payroll survey is more reliable than the household survey in assessing current employment trends.

- Beginning with the week that started December 21, between 80,000 and 90,000 unemployed workers have exhausted their regular unemployment benefits every week and have not been eligible for TEUC aid. By the end of January, about one-half million jobless workers will have exhausted their regular benefits without receiving TEUC aid.

The Hardships Facing Those Without Paychecks or Unemployment Checks

Since December 21, the vast majority of those who have exhausted their regular unemployment benefits have gone without a paycheck or an unemployment check. (A small fraction of those who exhaust their regular benefits will be eligible for extended unemployment benefits, which, as of January 10, will be available in only two states.)[3]

The precarious financial situation faced by many long-term unemployed people means that any delay in receiving TEUC benefits can be quite harmful. (Even when workers do receive benefits, the benefits only partially replace their lost income — typically between 30 percent and 50 percent of a worker's previous wages.)

A survey conducted in April 2003 found that more than half of unemployed workers had cut back on spending on food, and more than half had postponed medical or dental treatment.[4] Studies conducted prior to the recent downturn showed that long-term unemployed workers without unemployment benefits are much more likely than workers still receiving benefits to be living in poverty.[5] In addition, a widely-cited study found that more than 80 percent of workers who become unemployed have savings, at the time they lose their jobs, that are equal to less than two months of income.[6]

The Labor Market Today vs. the Labor Market 10 Years Ago

House Majority Leader Tom DeLay has argued that the unemployment rate indicates there is "no reason" to extend the TEUC program and that "every economic indicator is better than in 1993, when the Democrats ended the [federal] unemployment program."[7]

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[3] As of January 10, only Alaska and Michigan will be eligible for the extended benefits program. Oregon and Washington had been eligible but trigger off the program that day.

[4] Survey by Peter D. Hart Research Associates commissioned by the National Employment Law Project, "Unemployed in America," conducted April 17-28, 2003.

[5] *Family Incomes of Unemployment Insurance Recipients and the Implication for Extending Benefits,* Congressional Budget Office, February 1990. The CBO study found that without unemployment insurance benefits, 46 percent of long-term unemployment insurance recipients would be poor; with unemployment insurance benefits, only 19 percent were.

[6] Jonathan Gruber, "The Consumption Smoothing Benefits of Unemployment Insurance," *The American Economic Review,* March 1997, Volume 87, Issue 1.

[7] Fawn H. Johnson, "Unemployment Insurance: DeLay Sees 'No Reason' to Extend Federal UI Program Into Next Year," *Bureau of National Affairs* (BNA) *Daily Labor Report*, November 20, 2003.

As the quote from Rep. DeLay indicates, a main argument advanced by opponents of continuing the TEUC program is that labor market conditions are better now than they were 10 years ago, when the temporary federal benefits program of the early 1990s was allowed to expire. This argument relies heavily on the accurate statement that the unemployment rate is lower today than the unemployment rate was 10 years ago.

The observation that the unemployment rate is lower today that it was 10 years ago is not a new one. The unemployment rate has been lower throughout the past few years than it was in the early 1990s. Since the inception of the TEUC program, it has been *other* characteristics of the labor market that have resulted in a need both to establish the program and to continue it. These include the exceptional breadth and duration of job loss that has characterized the labor market recently and the persistence of long-term unemployment.

Of particular note, a study by the Federal Reserve Bank of New York found that the decline in the overall number of jobs so far into the recovery *is unprecedented in the post-World War II era*. The study found that since the end of World War II, it has been only during the current recovery and the initial months of the recovery of the early 1990s that there has been a sustained divergence between general economic growth and job trends.[8] (Although there has been some job growth since this study was published, the dramatic degree to which job growth during this recovery lags job growth in other post-World War II recoveries has not changed. See the figure below.) The study also noted that during the current recovery, job losses continued after growth picked up, while in the early 1990s the number of jobs held steady once growth began to pick up. A recent study by the Congressional Budget Office reached essentially the same conclusions.[9]

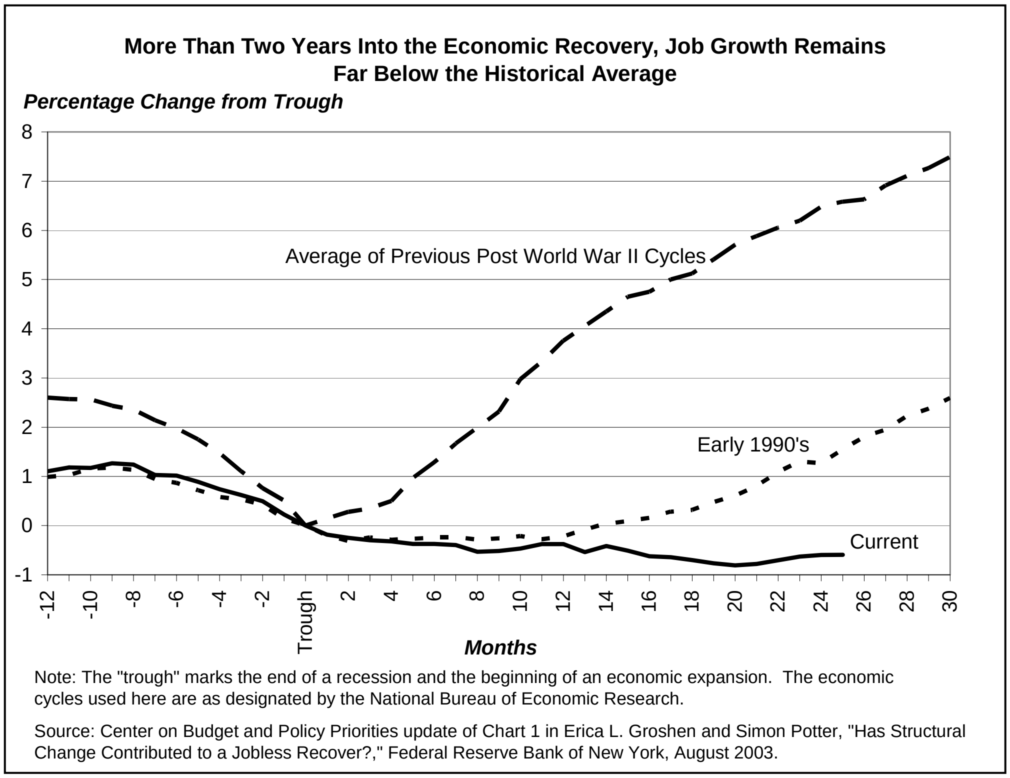
In addition, a comparison of job trends in recent months to job trends before the temporary federal benefits of the early 1990s phased out shows the following.

- Before the earlier program was allowed to phase down in early 1994, the number of jobs in the economy had increased for 22 of the previous 23 months. At the time of the phase-out, there were *more* jobs than at the previous employment peak.

- By contrast, December 2003 marked only the fifth month of modest job creation, following six consecutive months of job losses. As noted, in December 2003 there were still 2.4 million *fewer* jobs than in February 2001, the month that employment peaked before the downturn kicked in.

[8] Erica L. Groshen and Simon Potter, "Has Structural Change Contributed to a Jobless Recovery?", *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, Volume 9, Number 8, August 2003.

[9] Congressional Budget Office, *The Budget and Economic Outlook: An Update,* August 2003, page 33.



Here, as well, long-term unemployment trends are even more telling. The number of people in need of assistance from the TEUC program is much higher than it was than when the temporary federal benefits program of the early 1990s ended.

- From August through November 2003 (the latest months for which these data are available), despite modest job growth, 1.4 million workers exhausted their regular unemployment benefits. The number of individuals exhausting their regular unemployment benefits has been running about 100,000 per month higher than in the equivalent period before the federal program of the early 1990s ended.[10]

- Even after adjusting for the growth in the size of the labor force, 25 percent more individuals exhausted their regular unemployment benefits over the past three months than in the equivalent months before the program of the early 1990s ended.

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[10] This analysis compares the number of people exhausting their regular benefits from August 2003 through November 2003 to the number of people exhausting their regular benefits from August 1993 to November 1993. The four-month period starting in August is examined both because August 2003 is the month in which the number of jobs in the economy began to grow and because using a four-month period helps smooth out some of the monthly fluctuations in the number of exhaustees. The period ends with November because it is the last month for which this information is now available.

August 2003 through November 2003 is compared to August 1993 to November 1993 because these data are not "seasonally adjusted." This means the data are not adjusted for any fluctuations that occur due to seasonal labor market patterns. When labor market data are not seasonally adjusted, it is common practice to compare similar months of the year. August 1993 to November 1993 also reflects the period a few months before the early 1990s program was phased out starting in February 1994.

December unemployment rate decline underscores limits to this measure

The national unemployment rate declined from 5.9 percent in November to 5.7 percent in December. The decline, however, did *not* reflect an improvement in the labor market. Instead, it reflected a huge fall in the number of people in the labor force; 309,000 fell out of the labor force. This included a large number of people who had previously been counted as unemployed; since they dropped out of the labor force in December they were no longer counted as unemployed and the unemployment rate decreased artificially.

A decline in the labor force is typically a sign of labor market weakness, not strength. And indeed, other labor market indicators for December were quite weak. As mentioned, only 1,000 jobs were created that month. Further, the average number of hours worked by those who did have a job declined from November to December.

State-by-state data

Information is available for each state on the number of jobless workers who are exhausting their regular unemployment benefits and thus are in need of federal aid. The vast majority of states have experienced increases in need relative to the comparable period 10 years ago. This is true even after adjusting for the increase in the labor force since then. After making this adjustment:

- From August through November of this year, 39 states had more exhaustees than in the period from August through November 1993.

- In many of these states, the increase was very substantial; in 17 states dispersed across the country, the number of exhaustees was at least 50 percent greater in the more recent period than in the comparable period 10 years earlier. These states are Colorado, Idaho, Indiana, Kansas, Kentucky, Louisiana, Massachusetts, Nebraska, New Hampshire, North Carolina, Oklahoma, Oregon, South Carolina, South Dakota, Utah, Virginia, and Wisconsin.

- State-by-state data are available in Appendix Table 1. For example, the table indicates that in North Carolina, the state with the largest percentage increase in exhaustees, some 45,676 individuals exhausted their state benefits from August through November 2003. Even after adjusting for the growth in the labor force in North Carolina over the past 10 years, this still reflects an increase in exhaustees of 214 percent; that is, the number of individuals exhausting their regular benefits more than tripled over this period.

The Labor Market Today vs. the Labor Market When the TEUC Program Began

It is also of interest to compare the health of the labor market today to its health at the time the TEUC program was enacted as part of the March 2002 stimulus legislation. Key indicators remain worse today than they were when Congress created the program. The employment level is 357,000 lower. Most tellingly, the level of long-term unemployment is much higher than it was, with 570,000 more unemployed workers falling into this category today than when the TEUC program began; this represents an increase of 43 percent.

	TEUC Enacted, March 2002	**Latest Data, December 2003**	**Change**
Number of jobs	130.481 million	130.124 million	-357,000
Long-term unemployed	1.32 million	1.89 million	+570,000

Will More Weeks of TEUC Benefits Lengthen Unemployment Spells and Slow the Recovery?

One argument increasingly being made is that by assisting people while they are still unemployed, the TEUC program deters them from looking from work. Thus, the argument goes, the TEUC program increases unemployment and slows the recovery. The better option, according to this argument, is to let the TEUC program expire and thereby to increase pressure for these jobless workers to find work.

A job and a paycheck for all workers for whom this is possible surely should be a goal. But for many workers, this is not currently achievable. The basic reality is not enough jobs are available now. Nor is the number of jobs expected to adequate for some time to come.

A recent *Wall Street Journal* editorial advanced the concern that continuing the TEUC program "would only prolong disincentives to take those jobs," citing research that shows "people tend to find jobs just before [unemployment insurance] benefits run out."[11] But whatever applicability this finding may have to other labor market conditions and other unemployment insurance programs, it does not seem to be generally applicable to the current labor market or the TEUC program. In recent months, three of every four beneficiaries have exhausted their TEUC benefits *before* finding a job, suggesting that any jump in job finding just before benefits run out does not apply to the vast majority of TEUC recipients today. Also of interest is a conclusion of a recent study by the Congressional Research Service: "Generally, the exhaustion of UC [Unemployment Compensation] benefits is not considered to be a reliable indicator of UC abuse by an individual."[12]

Indeed, additional TEUC benefits actually may spur job creation. A study by economics consulting firm Economy.com found that on a per-dollar basis unemployment insurance is the single best mechanism to boost the economy of a variety of tax cut and other stimulus measures the study examined, giving the economy a $1.73 jolt for each $1 of federal benefits. Unemployment insurance benefits are excellent stimulus because they aid people who are likely to spend additional resources immediately. They also automatically target aid to, and thus boost demand in, geographic areas in which long-term unemployment is concentrated and stimulus is needed most.

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[11] "The Jobs Recovery," *The Wall Street Journal*, December 8, 2003.

[12] *Unemployment Compensation (UC)/Unemployment Insurance (UI): Trends and Contributing Factors in UC Benefit Exhaustion*, Congressional Research Service Report for Congress, October 10, 2003, page 2.

The Costs of Resuming the Program

The federal unemployment insurance trust fund currently contains about $20 billion. One of the principal purposes for which taxes are paid into the trust fund is to provide federal unemployment benefits when the job market is weak. The cost of a straight extension of the TEUC program is less than $1 billion a month, so there is no risk of depleting the trust fund by resuming the program. Indeed, the trust fund is sufficiently large to permit some modest, but necessary, improvements in the program.[13]

Another factor to consider in assessing the costs of the TEUC program is how much it costs relative to the tax cuts that have been enacted largely in the name of job creation. Those tax cuts will amount to $272 billion in fiscal year 2004, or more than 20 times the annualized cost of running the TEUC program. If the goal is to aid the unemployed, unemployment insurance is far better targeted on assisting those who need it then are generalized tax cut efforts. Further, as just noted, the Economy.com study of the effects of various ways to stimulate a weak economy found that for each dollar of cost to the federal Treasury, federal unemployment insurance benefits are the single most effective policy mechanism examined and are considerably more efficient in this regard than the various tax-cut provisions that were enacted.

Finally, federal unemployment benefits truly are temporary. There is little question that they will expire when the economy — and the job market — recover sufficiently. In every past economic downturn in recent memory, temporary federal unemployment benefits have been provided when the economy was weak and then terminated when the job market recovered adequately. This contrasts sharply with the tax provisions that Congress has enacted; the President and key Congressional leaders seek to make all these cuts permanent, which would result in large deficits for many years to come.

[13] See "Approaching the Deadline," Center on Budget and Policy Priorities, November 12, 2002 for the authors' description of the improvements needed.

Appendix 1.
The White House's Non-position on Whether to Continue the TEUC Program

Transcript of December 11, 2003 Press Briefing by Press Secretary Scott McClellan, as it appears on theWhite House Website

Q Congress left town without extending unemployment benefits, which are due to expire December 21st. Does the administration believe that the Congress should make that a first order of business when they return?

MR. McCLELLAN: Well, one, the President worked closely with Congress to extend unemployment benefits on three previous occasions. And the President has made it very clear that as long as there are people looking for work who cannot find a job, there is more that we need to do. He is not satisfied.

And the most important thing that we can do for workers and families and those who are seeking employment, is to continue working to move our economy in the right direction. It is moving in the right direction. There are a lot of positive indicators showing that the economy is moving in the right direction and showing that new jobs are being created. But there is more to do, and that's why the President has a six-point plan to create an even more robust environment for job creation.

So that's what's most important, but we'll continue working with Congress on that issue, as well.

Q -- know that the more to do at the moment does not include extending --

MR. McCLELLAN: I think the most important thing for America -- America's workers and families, is that they want paychecks and jobs. And we have made important progress in there -- progress to get there. Jobs are being created. There is more that we need to do to create an even more robust environment. That's where the President's focus is. We did extend unemployment benefits three times previously. We'll continue to work with Congress on that issue. But I would point out the economy is strengthening, it continues to grow and we'll continue to work with Congress to act to create an even more robust environment for job creation.

Q Why can't you say whether or not you support just an additional extension in the meantime?

MR. McCLELLAN: I said we'd work with Congress.

Appendix Table 1
Exhaustions of Regular Benefits, by State

	Number of Workers Exhausting Regular Unemployment Benefits August-November 2003	Increase Since August-November 1993, Adjusting for Increase in a State's Labor Force
Alabama	14,421	32%
Alaska	5,996	-3%
Arizona	21,795	33%
Arkansas	12,963	32%
California	219,870	-4%
Colorado	20,342	64%
Connecticut	20,173	-2%
Delaware	3,621	48%
District of Columbia	3,871	-23%
Florida	57,198	-8%
Georgia	35,166	45%
Hawaii	2,919	-38%
Idaho	6,000	51%
Illinois	66,406	27%
Indiana	27,814	135%
Iowa	9,416	41%
Kansas	12,488	50%
Kentucky	12,289	51%
Louisiana	19,863	92%
Maine	3,474	-29%
Maryland	15,372	34%
Massachusetts	43,155	54%
Michigan	52,243	36%
Minnesota	19,203	41%
Mississippi	8,421	40%
Missouri	25,532	29%
Montana	2,452	-7%
Nebraska	6,428	139%
Nevada	11,035	29%
New Hampshire	2,279	94%
New Jersey	59,458	5%
New Mexico	4,878	15%
New York	112,247	12%
North Carolina	45,676	214%
North Dakota	1,033	-1%
Ohio	41,222	39%
Oklahoma	12,992	57%
Oregon	25,933	53%
Pennsylvania	67,871	20%
Rhode Island	5,397	-33%
South Carolina	19,226	75%
South Dakota	598	99%
Tennessee	24,495	36%
Texas	94,976	32%
Utah	7,990	90%
Vermont	2,153	-7%
Virginia	19,738	61%
Washington	32,099	17%
West Virginia	4,819	-2%
Wisconsin	26,857	84%
Wyoming	1,256	43%
Total United States*	1,393,083	25%

*Total includes data for Puerto Rico and the Virgin Islands.
Source: CBPP calculations based on U.S. Department of Labor data.