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Three Million Jobless Workers to be Affected If Congress Takes No Action to Extend and Strengthen Temporary Federal Unemployment Benefits Program

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Summary

Unless new federal legislation is enacted, the Temporary Emergency Unemployment Compensation (TEUC) Program — the program created by the March stimulus legislation to provide federally-funded unemployment benefits to workers who have exhausted their regular, state-funded benefits — will terminate on December 28, 2002. Unemployed workers receiving TEUC benefits on that date will be summarily cut off and receive no further unemployment assistance.

In fact, starting October 7, all workers whose regular unemployment benefits run out and who begin to receive TEUC benefits will be provided *fewer* than the 13 weeks of such benefits that the stimulus legislation provided, because of the December 28 expiration date. The scheduled termination of TEUC remains on track, despite a Congressional Budget Office forecast issued in late August that the unemployment rate will not decline between now and the end of the year and will remain at about six percent until the second half of 2003.

Without immediate Congressional action to extend the TEUC program beyond this year — and also to strengthen the program by providing additional weeks of benefits to workers whose TEUC benefits have run out — we estimate that more than three million unemployed workers and their families will be adversely affected over the next five months. This estimate is consistent with CBO projections of future unemployment trends.

A large fraction of these workers will feel these effects right away. The approximately three million workers fall into four categories.

- **An estimated 860,000 workers whose TEUC benefits ran out by the end of September and who remain unemployed.** From the start of the TEUC program last March until the end of September, an estimated 1.5 million workers have exhausted their TEUC benefits before finding work. Based upon recent employment patterns, an estimated 860,000 of them remain unemployed as of the end of September. These jobless workers and their families would be aided if the TEUC program were strengthened through the addition of further weeks of benefits for workers who have exhausted their TEUC benefits but been unable to find work.

- **Another 610,000 workers who will exhaust their TEUC benefits in the final three months of the year.** In October, November, and December, an estimated 610,000 workers will exhaust their TEUC benefits before securing employment. These workers, too, would be assisted if more weeks of TEUC benefits were provided.
- **Approximately 820,000 unemployed workers who will have their TEUC benefits cut off at the end of December when the TEUC program ends.** The TEUC program includes a hard cutoff; *no* TEUC benefits will be provided after December 28, 2002. Approximately 820,000 workers will be receiving TEUC benefits on December 28, 2002 and will have their benefits terminated before they have received the full number of weeks of benefits that TEUC has been providing. For example, a worker whose regular unemployment benefits run out at the end of November will receive only four weeks worth of TEUC benefits before being cut off, instead of the 13 weeks worth that otherwise would be provided. Any worker who begins to receive TEUC benefits after the first week of October will receive less than the full complement of 13 weeks of benefits.
- **An estimated 810,000 workers who will exhaust their regular unemployment benefits in January and February 2003 and will not qualify for any additional federal benefits because TEUC will no longer exist.** If the TEUC program expires at the end of December, it will terminate at a time when large numbers of unemployed workers are exhausting their regular, state-funded unemployment benefits before they find a job. Current data and trends suggest that approximately 810,000 workers will exhaust their regular unemployment benefits without finding work in January and February 2003 alone. (Additional large numbers of workers are likely to exhaust their regular benefits in months after that, but the most reliable estimates can be made for January and February.¹)

A table at the end of this analysis provides estimates on a state-by-state basis of the number of workers that will be adversely affected if Congress does not act. In 10 states — California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Texas — more than 100,000 workers per state will be affected.

TEUC Much Weaker Than Comparable Program in Previous Recession

That such large numbers of workers will be affected if Congress does not act is a reflection of the limited nature of the TEUC program. TEUC is much weaker than the emergency federal unemployment benefits program established during the last recession. This is especially noteworthy given that by many key measures, the current downturn has hit workers as hard as the recession of the early 1990s, and given that CBO projects that the unemployment rate will not fall significantly until the second half of 2003.

¹ Reliable estimates for the number of workers exhausting regular unemployment benefits can be made for January and February 2003 because the estimates reflect the known number of workers who began to receive their up-to-26-weeks of regular benefits in August and September of this year.

- **If the TEUC program is not extended, it will have lasted only one-third as long as the analogous program in the previous downturn.** If the TEUC program is allowed to expire at the end of December, it will have been in effect for 9½ months. In the recession of the early 1990s, the temporary federal unemployment benefits program was in place for 30 months, or three times as long.
- **The number of workers who are running out of their TEUC benefits this year before finding work substantially exceeds the number of jobless workers who exhausted their benefits in a comparable period during the recession of the early 1990s.** Largely because fewer weeks of unemployment benefits are provided to unemployed workers now than in the last downturn, unemployed workers today are more likely to have their benefits run out before finding jobs than their counterparts during the last recession.
- **Many fewer states are qualifying to provide a second, longer tier of federal unemployment benefits.** Under the statute governing TEUC, only two states are currently classified as “high unemployment” states, which permits workers in these states to receive up to 26 weeks of TEUC benefits, rather than up to 13 weeks of these benefits. The number of “high unemployment” states has dwindled from 12 last spring to two today despite the fact that employment conditions in most of these states have not improved over this period.² The dramatic reduction in the number of such states is largely the result of a serious deficiency in the mechanism that the TEUC program uses to determine which states qualify as having high unemployment: the mechanism fails to count the long-term unemployed and the trigger level was not seasonally adjusted. A better-designed mechanism was used in the previous recession to measure which states qualify as having “high unemployment;” it enabled more states to provide an ample number of weeks of federal unemployment benefits during that downturn.³

² Alaska, Arkansas, California, Idaho, Massachusetts, Michigan, Nevada, New Jersey, Pennsylvania, and Wisconsin qualified to provide up to 26 weeks of TEUC benefits for part of the TEUC program, but had all triggered off of the second tier of benefits as of the end of July 2002.

³ For an explanation of the problems with the design of the “high unemployment” trigger in the TEUC program, see Wendell Primus and Jessica Goldberg, “Number of Workers Exhausting Federal Unemployment Insurance Benefits Will Reach an Estimated 1.5 Million by the End of September and Exceed Levels in the Last Recession,” Center on Budget and Policy Priorities, September 2002.

Legislative Action Should Not be Deferred

While there is a possibility that Congress may return to Washington in November or December for a “lame duck” legislative session, such a session is far from a certainty. Many Congressional leaders oppose a lame-duck session. Delaying action on a TEUC extension thus carries a high risk.

There also are other reasons for Congress to act now. As noted, the current TEUC program is operating poorly in two respects. First, because of the insufficient number of weeks of benefits provided under TEUC, approximately 860,000 workers already have exhausted these benefits but remain unemployed. Second, because of the inadequacy of the “high unemployment” trigger, only two states are allowed to provide more than 13 weeks of TEUC benefits to jobless workers who remain without jobs.

In addition to providing relief to unemployed workers who need it now, action by Congress to strengthen the TEUC program before Congress adjourns would benefit the economy. Unemployment insurance provides well-targeted economic stimulus; its benefits increase consumer spending in the hardest-hit areas and among the hardest-hit workers. Moreover, unemployment benefits go to workers who are likely to spend them quickly, as many of these workers are facing economic hardship and need additional income to meet immediate household needs. Boosting consumer spending quickly is widely viewed as one of the most effective ways (if not the most effective way) to sustain and strengthen the economic recovery.

Without Congressional Action, About \$24 Billion Will Sit Unused in the Federal Unemployment Insurance Trust Funds

The federal unemployment insurance trust funds will have an estimated surplus of approximately \$24 billion at the end of this year. To extend and strengthen TEUC, unemployment insurance taxes thus do not need to be raised. If TEUC is allowed to expire, these trust fund surpluses will sit unused while several million jobless workers go without benefits, even though one of the main purposes of the trust funds is supposed to be to finance additional federal unemployment assistance during economic slumps.

The remainder of this analysis examines several of these matters in more detail. The analysis concludes with a brief description of what federal legislation to extend and reform the TEUC program might include.

Workers Exhausting TEUC Benefits in 2002 Won't Receive More Aid

In March of this year, economic stimulus legislation was enacted that established a Temporary Emergency Unemployment Compensation (TEUC) program under which workers who have exhausted their regular, state-financed unemployment insurance benefits — which typically are provided for up to 26 weeks — may receive additional weeks of federally-financed unemployment benefits. Today, under the TEUC program, workers in most states can receive up to 13 weeks of additional federally-funded benefits. Workers in two states with very high

unemployment rates (Oregon and Washington) can receive up to 26 weeks of additional, federally-funded benefits.⁴

In part, the large number of workers exhausting their TEUC benefits this year — 1.1 million through August, a projected 1.5 million through September, and a projected 2.2 million through December — reflects a stagnant labor market in which relatively few new jobs are available. But the weak labor market is only part of the story. The 2.2 million workers expected to exhaust their TEUC benefits by the end of the year is substantially larger than the 1.4 million unemployed workers who exhausted their temporary federal benefits in a comparable period of the downturn of the early 1990s.

Much of the gap between the projected 2.2 million exhaustees in 2002 and the 1.4 million exhaustees in the previous recession reflects differences between the design of the current TEUC program and the design of the temporary federal program in place in the early 1990s.⁵ Today's TEUC program provides many fewer weeks of unemployment benefits than did the temporary federal program of that earlier period. The federal program established in the early 1990s initially provided 26 weeks of additional benefits to workers whose regular unemployment benefits had run out in 34 states and the District of Columbia, and 33 weeks of additional benefits in the other 16 states.⁶ After the program had been operating for 7½ months, the number of additional weeks provided was reduced to 20 weeks in the majority of states and 26 weeks in the high-unemployment states.

In other words, for the first 22 months the program operated, the *minimum* number of additional weeks of federal benefits provided in any state was 20 weeks. This compares to 13 weeks today. A worker is more apt to exhaust his or her unemployment benefits before finding work when these benefits are provided for a significantly shorter period of time, as is currently the case.

To be sure, a fair number of the individuals who have exhausted their TEUC benefits in recent months have since found jobs. Given the ongoing weakness in job growth, however, many have not and are in need of additional assistance. As explained later, an estimated 55 percent of the 1.5 million individuals who exhausted their TEUC benefits by the end of September remain out of work.

⁴ North Carolina is soon expected to adopt an optional trigger for the regular federal-state Extended Benefits program that would allow it to qualify as a high unemployment state for the purposes of the TEUC program as well.

⁵ There also are more workers in the labor force today than there were a decade ago, so the increased number of exhaustees today partly reflects growth in the labor force. But even after adjusting for the growth in the labor force, significantly more workers have exhausted their temporary federal unemployment benefits in this downturn than in the last one.

⁶ When the temporary federal program was first enacted in November 1991, the legislation provided 13 weeks of additional benefits in low unemployment states and 20 weeks in high unemployment states. However, before any unemployed workers could exhaust those benefits, an additional 13 weeks of benefits were provided to unemployed workers in all states.

Workers Receiving Benefits at the End of 2002 Will be Cut Off Immediately

A notable feature of the current program's design is its "hard cut-off" at the end of 2002. No benefits will be paid after the week ending December 28, which is the last full week in 2002. This means that all workers receiving TEUC benefits at the time the program expires will have their benefits end, even though they have not received 13 weeks of TEUC benefits. A worker who begins receiving these benefits in mid-December will receive only two weeks of TEUC benefits, while a worker beginning to receive benefits in mid-November will receive six weeks. Any worker who begins to receive TEUC benefits after the first week of October will have his or her benefits cut off before receiving 13 weeks of benefits.

The number of workers who will be affected by the expiration of the program at the end of December is likely to be large. The latest data indicate that 1.1 million workers were receiving TEUC benefits as of the last week of August. The precise number of workers who will be receiving TEUC benefits at the end of December and will have been provided fewer than their full 13 weeks of assistance is not known, but based on the number of workers receiving TEUC benefits at the end of August and other data and trends, we conservatively estimate it will be 820,000. All of these workers will have their benefits terminated on December 28.

Workers Exhausting Their Regular Unemployment Benefits After December 28

If the TEUC program expires at the end of this year, still another category of workers — those who exhaust their regular, state-funded unemployment benefits in the early part of 2003 — will be affected. These workers will receive even less unemployment assistance than the categories of workers described above, since they will receive no TEUC benefits at all.

The size of this category of workers, too, is likely to be large. Over the past six months an average of more than 380,000 workers a month have been exhausting their regular unemployment benefits, a level that is quite high by historical standards. That is about 75 percent higher than a year ago. Similar levels are likely to prevail through at least the early part of next year. Our projections here reflect the known — and sizable — number of workers who first began receiving *regular* unemployment benefits in July and August and whose 26 weeks of regular benefits thus will run out early next year. These projections also reflect the widely-held expectation, reflected in the latest Congressional Budget Office economic forecast, that the unemployment rate will not have declined significantly, if at all, by early 2003.

We estimate that in January and February of next year, 810,000 workers will exhaust their regular unemployment benefits.⁷ This figure would be about 20 percent larger than the number of workers who exhausted their regular benefits in January and February 2002. It was, in part, the high level of exhaustions in early 2002 that led to the creation of the TEUC program in the first place in the March 2002 stimulus legislation.

⁷ The slightly higher number of exhausters anticipated for January and February compared to recent months (just over 400,000 workers a month versus about 380,000 workers a month) reflects the fact that due to seasonal labor market patterns exhaustions tend to be higher at the beginning of the calendar year.

Three Million Workers Will Be Affected By the End of February If Congress Fails to Act

If Congress fails to act before adjourning in October, more than three million workers in total will be adversely affected over the course of the next five months. These workers fall in four mutually exclusive groups: workers who received TEUC benefits but exhausted those benefits by the end of September and have not yet found work; workers who will exhaust their TEUC benefits during the months of October, November and December without finding work; workers who will be in the midst of their weeks of TEUC benefits when the program expires on December 28; and workers who will exhaust their regular unemployment benefits in January and February of 2003, after the TEUC program has ended. The number of workers in each of these four groups is shown in the table below.

We estimate that somewhat more than half of the 1.5 million workers who have exhausted their TEUC benefits by the end of September have not yet found new jobs. This results in an estimate of approximately 860,000 workers who have exhausted their TEUC benefits as of the end of September and remain unemployed. In addition, based on current TEUC exhaustion patterns, 610,000 more workers will exhaust TEUC benefits in October, November, and December without finding work. Another 820,000 workers will be receiving TEUC on December 28 but will cease to receive benefits after that date despite not having exhausted their benefits because TEUC will no longer operate. A final 810,000 workers are projected to exhaust their regular unemployment benefits in January and February 2003. In total, approximately three million workers will be adversely affected in the next five months by either the inadequate number of weeks of TEUC benefits or the expiration of the TEUC program.

Workers who will have exhausted TEUC by the end of September and still be unemployed at that time	Workers who will exhaust TEUC between October and December	Workers who will be cut off from TEUC benefits on December 28, 2002	Workers who will exhaust regular unemployment benefits in January and February 2003	Estimated number of total workers affected
860,000	610,000	820,000	810,000	3.1 million

Earlier Program Remained In Place Until Unemployment Declined Significantly

At some point in time, the TEUC program should end, and workers who exhaust their regular benefits should not be eligible for temporary federal benefits. The TEUC program is — and should be — a temporary program. The issue here is whether the end of 2002 is the appropriate time to terminate the TEUC program.

It is instructive to examine the operation of the temporary program of additional weeks of federal unemployment benefits put in place during the last recession, the Emergency Unemployment Compensation (EUC) program. When the EUC program ended on April 30, 1994, the unemployment rate had been declining for many months and had dropped more than half of the way back to the unemployment levels that prevailed before the recession started.

In the current downturn, most analysts expect the unemployment rate to remain at or close to its current level for some time. No one expects that in the next few months, the unemployment rate will fall half of the way back to pre-recession levels. As noted, in its latest economic projections issued on August 27, 2002, the Congressional Budget Office stated that, “the unemployment rate is expected to remain around 6 percent until the second half of 2003.”⁸

Another point of comparison is the length of time that the temporary program of federal unemployment benefits was in place during the last recession. The EUC program was in effect from November 1991 until April 1994, a period lasting 30 months. If the current TEUC program expires at the end of December, it will have been in effect for 9½ months. The temporary federal program in the previous recession was in effect three times longer than the period for which the TEUC program currently is scheduled to operate.

This is of particular concern because by many measures, the current downturn is hitting workers as hard as, and in some cases harder than, the recession of the early 1990s.⁹

- More workers are exhausting their regular unemployment benefits at this stage of the downturn than at a similar stage of the downturn of the early 1990s. Some 2.3 million workers exhausted their regular unemployment benefits between March and the end of August of 2002, compared to a figure of 2.0 million for a six-month period at a comparable point in the last recession.
- Both the number of unemployed workers and the unemployment rate have increased about as much in this recession as in the previous one. Alternative measures that use unemployment insurance data to track the unemployment rate among workers with recent work experience (a measure that excludes new entrants and re-entrants to the labor market) show that the unemployment rate among workers with recent work experience has increased *more* during the current downturn than in the last one.
- Pre-tax corporate earnings have dropped more steeply in this downturn than in the recession of the early 1990s, and the National Bureau of Economic Research has reported that the decline in the number of jobs in the economy has been slightly larger in the current downturn than the average decline in the previous six recessions.¹⁰

⁸ Congressional Budget Office, *The Budget and Economic Outlook: An Update*, August 2002.

⁹ These issues are explored in detail in the Center on Budget and Policy Priorities analysis “The August Unemployment Rate Masks the Severity of the Downturn and the Problems of Those Exhausting Their Unemployment Benefits,” September 2002.

¹⁰ See David Leonhardt, “Sting of Last Year’s Recession Was Not as Mild as Many Think,” *New York Times*, September 24, 2002.

The Federal Unemployment Insurance Trust Funds

The federal unemployment insurance trust funds contain large reserves — estimated here to equal about \$24 billion at the end of this year — that are more than ample to support the strengthening and extension of the TEUC program.¹¹ No additional unemployment insurance taxes would be needed. The unemployment insurance trust funds built up large resources when times were good, as the trust funds were designed to do. These resources were accumulated for the express purpose of being able to meet the needs of jobless workers when the economy weakened and unemployment climbed.

Although employers officially pay unemployment insurance taxes, most economists agree that these taxes actually are borne by workers in the form of lower wages than they otherwise would receive. When the economy hits one of its periodic downturns and large numbers of workers lose their jobs and remain unemployed for long periods of time, the reserves that have accumulated in the federal unemployment insurance trust funds — which essentially represent taxes that workers have paid — should be used to provide additional weeks of unemployment benefits. This is one of the purposes for which these trust funds were established — and these taxes collected — in the first place.

The Need to Extend and Strengthen the TEUC Program

The scenarios outlined above, with their detrimental consequences for several million unemployed workers and their families, will not occur if the federal government acts soon to extend and strengthen the TEUC program. In broad brush, new legislation could include the following components:

- An extension of the expiration date of the TEUC program through the end of June 2003, which is when current projections suggest the unemployment rate might begin to diminish.
- The provision of additional weeks of benefits for those individuals who have already exhausted their TEUC benefits. This would bring the TEUC program more into line with the temporary federal emergency unemployment programs that operated in previous recessions, including the recession of the early 1990s.
- An improvement in the definition of “high unemployment” so that more states experiencing high unemployment may qualify to provide additional weeks of benefits. The faulty design of the current trigger makes many of the states with high unemployment *ineligible* to provide additional weeks of benefits.

Such modifications in the TEUC program ought not be deferred. Not only are the prospects for a lame duck session highly uncertain, but hundreds of thousands of jobless workers

¹¹ According to Labor Department officials, at the end of August, there were \$28.5 billion in these federal unemployment trust funds. A reasonable estimate is that at the end of the year, somewhere between \$23 billion and \$25 billion will be available in the trust funds.

will be adversely affected in the weeks ahead if action is not taken before Congress goes home in October. If Congress does not act, the failure to extend the expiring TEUC program and to provide additional weeks of benefits will adversely affect approximately three million unemployed workers and their families.

Estimated Number of Workers in Each State that Will be Affected by Failure to Extend and Strengthen the TEUC Program

	Estimated Number of Workers Who Exhausted TEUC Benefits by the End of September and Remain Unemployed	Estimated Number of Workers Whose TEUC Benefits Will Run Out in October-December	Estimated Number of Workers Who Will Be Cut Off TEUC at the End of December	Estimated Number of Workers Who Will Exhaust Regular Unemployment Benefits, Jan-Feb 2003	Total Number of Workers Affected
Alaska	2,100	1,900	4,200	4,500	12,700
Alabama	7,400	5,300	6,000	7,800	26,500
Arkansas	7,700	5,900	4,800	6,800	25,200
Arizona	8,700	7,200	7,400	8,400	31,700
California	67,600	78,600	129,900	128,600	404,700
Colorado	15,300	11,400	14,500	12,600	53,800
Connecticut	12,700	9,400	10,600	8,600	41,300
District of Columbia	4,500	3,300	1,700	2,800	12,300
Delaware	1,600	1,300	1,800	1,600	6,300
Florida	59,200	34,500	40,500	35,900	170,100
Georgia	54,700	23,300	20,600	27,000	125,600
Hawaii	1,600	1,000	1,800	1,900	6,300
Iowa	6,800	4,600	5,300	5,500	22,200
Idaho	1,900	1,600	2,700	4,300	10,500
Illinois	56,400	34,500	41,700	36,800	169,400
Indiana	20,900	11,000	13,300	16,600	61,800
Kansas	4,100	4,400	4,600	6,800	19,900
Kentucky	9,100	5,400	6,700	5,500	26,700
Louisiana	6,600	4,500	7,900	7,800	26,800
Massachusetts	8,200	9,900	23,700	25,600	67,400
Maryland	9,600	5,800	7,900	8,100	31,400
Maine	2,200	1,500	3,000	2,100	8,800
Michigan	38,400	26,900	32,900	30,300	128,500
Minnesota	16,700	10,700	11,900	11,500	50,800
Missouri	16,500	9,700	12,600	13,900	52,700
Mississippi	8,200	3,900	5,900	5,600	23,600
Montana	900	700	1,200	2,000	4,800
North Carolina	30,400	22,000	20,200	19,700	92,300
North Dakota	500	200	900	1,300	2,900
Nebraska	2,400	1,800	2,700	3,500	10,400
New Hampshire	1,200	600	800	1,000	3,600
New Jersey	29,600	23,600	40,700	38,500	132,400
New Mexico	3,000	1,500	2,000	2,800	9,300
Nevada	8,600	4,300	5,400	7,200	25,500
New York	114,100	62,300	65,900	77,600	319,900
Ohio	43,400	29,000	22,900	20,600	115,900
Oklahoma	7,500	6,500	5,200	5,100	24,300
Oregon	1,600	8,800	28,800	14,900	54,100
Pennsylvania	30,800	22,300	35,600	37,000	125,700
Rhode Island	5,000	3,000	3,100	3,300	14,400
South Carolina	17,600	9,700	9,900	8,900	46,100
South Dakota	200	100	200	300	800
Tennessee	26,700	15,900	16,400	13,400	72,400
Texas	48,500	30,200	62,100	74,500	215,300
Utah	5,500	5,600	5,400	4,900	21,400
Virginia	15,800	9,700	8,600	11,900	46,000
Vermont	800	700	1,000	900	3,400
Washington	2,000	15,300	45,400	19,300	82,000
Wisconsin	15,600	11,900	13,200	13,000	53,700
West Virginia	2,200	1,700	2,500	2,400	8,800
Wyoming	900	300	400	1,200	2,800
Total	863,500	605,200	824,400	812,100	3,105,200