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How Much Unemployment Assistance Is Provided under the Bill the Ways and Means Committee Has Approved?

by Wendell Primus

On October 12, the House Committee on Ways and Means approved an economic stimulus package. This legislation includes only one change in the unemployment insurance system — it speeds up the transfer of $9.2 billion already slated to be shifted from the federal unemployment insurance trust funds to state unemployment accounts. This provision falls far short of what is needed to strengthen the unemployment insurance system so it can function adequately during the impending recession in assisting unemployed workers and stimulating the economy.

- The Ways and Means provision would neither offer much assistance to the unemployed nor do much to stimulate the economy. This is because most of the funds it would transfer to state unemployment accounts *would not be spent*. The transferred funds would simply go into state unemployment trust fund reserves. States would not be required to use these funds to pay unemployment benefits; most states would likely use these funds instead to shore up their reserves to ensure they have adequate funds to weather the recession if the recession becomes long or deep.

- The Congressional Budget Office concurs with this assessment. CBO estimates that only about $2.3 billion of the $9.2 billion that would be transferred would actually be spent in fiscal year 2002 on increased UI benefits and administrative costs combined.[1] CBO also estimates that only $3.6 billion of these funds would be spent even over a longer timeframe.

- As a comparison, in the downturn of the early 1990s, the federal government provided $35 billion in additional federal funded unemployment insurance benefits. The amount of additional assistance that the Ways and Means bill would provide to the unemployed constitutes a small fraction of the amount of additional assistance the federal government provided in other recessions over the past 30 years.

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[1] In October 2001, some $0.1 billion was transferred to the states under provisions of current law. The Ways and Means bill would accelerate the transfer of another $9.2 billion scheduled to be transferred under current law, thereby bringing to $9.3 billion the amount that would be transferred to states now.

Nobel Laureate Stresses Importance of Boosting Unemployment Benefits

On October 12, Joseph Stiglitz, one of this year's Nobel prize winners in economics, made a presentation at the National Press Club on the current state of the economy and appropriate measures to stimulate it. Stiglitz proposed a five-point stimulus program. His first point called for expanding unemployment benefits. Stiglitz stated:

> "First, we should extend the duration and magnitude of the benefits we provide to our unemployed. The unemployed, in a situation like this, are innocent victims. Most of the people being thrown out of work want to work, but our economy is not providing them jobs. Why should they suffer because of economic mismanagement?
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> This is not only the fairest proposal, but also the most effective [as a stimulus]. People who become unemployed cut back on their expenditures. Giving them more money will directly increase expenditures."

- The Ways and Means measure would provide *no* immediate assistance to unemployed workers. In most states, increased unemployment benefits would not be provided until April 2002 or later, because states would have to take legislative action before the transferred funds could be used to provide additional weeks of unemployment benefits, raise benefit levels, or cover more unemployed workers.

- In addition, the proposal fails to allocate funds to states in accordance with need. The proportion of the $9.2 billion that would be transferred to each state's unemployment account would equal the proportion of federal unemployment insurance tax revenues that were collected in that state. States' current levels of unemployment and need for funding for unemployment benefits would be ignored in allocating the funds.

- The Ways and Means proposal provides even less in unemployment insurance assistance than the Bush Administration has proposed. Yet the Administration's proposal itself would likely fail to provide any assistance to unemployed workers in the majority of states, would provide little or no assistance in any state until mid-March, and — if the current recession is comparable to the recession of the early 1990s — would provide only about *one-seventh* the amount of additional federal unemployment benefits provided in that recession.

An alternative approach advanced by a bipartisan group of House members led by Rep. Ben Cardin would strengthen the UI system in a manner more consistent with the efforts made in previous recessions. This proposal would do far more to assist unemployed workers in need. It also would provide significantly greater economic stimulus.

Brief Description of the Ways and Means Provision

Under the Ways and Means bill, the scheduled transfer of $9.2 billion from the federal unemployment trust funds to state unemployment accounts would be accelerated so it occurred immediately. States would be allowed to use these funds in fiscal year 2002 and the first part of fiscal year 2003 to pay for or increase regular unemployment benefits, to provide additional weeks of benefits to those who have exhausted their regular unemployment benefits, to provide benefits to those who do not qualify for regular benefits, or to administer the unemployment insurance program and provide employment services. States also could simply maintain these funds in their reserves, using the funds to build their reserves to higher levels as added protection against the possibility that the downturn could become long or deep.

The transferred funds could be used to support unemployment benefits until March 11, 2003. After that date, the only permissible expenditures to which these funds could be applied would be expenditures for program administration and employment services.

It should be understood that over the long run, the Ways and Means proposal does not provide additional funding to the states; rather, it speeds up a transfer of funds that would occur anyway. Under a provision of federal law known as the Reed Act, when balances in the federal unemployment insurance trust funds reach certain levels, funds are automatically transferred from the federal UI trust funds to state accounts. The Congressional Budget Office projects that $40 billion in funds will be transferred to state UI accounts over the next 10 years due to the Reed Act. In the absence of the Ways and Means bill, an initial transfer of approximately $4 billion would occur at the end of fiscal year 2002, with about $3 billion to $5 billion being transferred each year thereafter. Under the Ways and Means legislation, the same $40 billion in funds would be transferred over the next ten years, but $9.2 billion of this amount would be transferred now.

How Much in Additional Benefits Would Result?

The immediate transfusion of $9.2 billion into state UI accounts from federal UI trust funds would enable states to increase unemployment benefits if they chose to do so. There would, however, be no requirement that the funds be used for that purpose, and it is likely that only a modest amount of additional unemployment assistance would be provided.

At the beginning of a recession, many states are likely to adopt a “wait and see” attitude before deciding how to commit these funds. States generally will want additional information on how severe the recession will be — and will want to ensure that their own state UI accounts have adequate reserves to meet all of the benefit obligations they may have to incur as the number of recipients rises. By adopting a wait and see attitude, states would minimize the possibility of having to increase taxes, cut UI benefits, or borrow from the federal government if the recession becomes deep or long lasting.

Analysis by the Congressional Budget Office confirms that this would be the likely course most states would pursue. CBO projects that only $2.3 billion of the $9.2 billion that would be transferred right away would be spent in fiscal year 2002.[2] Moreover, this $2.3 billion estimate includes funds that would be spent on state administrative costs in operating the unemployment insurance program, as well as funds spent on benefits.

No Immediate Assistance Would be Provided

The measure the Ways and Means Committee adopted would, in all likelihood, not begin to provide any significant amounts of assistance for six months or more. In nearly all states, legislatures would have to meet to decide whether and how to use these additional funds. In most states, that could not take place until early next year. Any actual charges in unemployment benefits probably would not be implemented until April of next year or later.

Assistance Would be Much Less Than in Previous Recessions

The Ways and Means bill breaks with historical precedent by not providing additional weeks of federal benefits in all states during an economic downturn. In every recession of the last 30 years, federal legislation has guaranteed that unemployed workers who exhaust benefits are eligible for additional weeks of benefits, regardless of the state in which they reside. In the last recession, $35 billion of federal funds were used to provide additional weeks of unemployment benefits to workers who exhausted benefits in every state. (This figure is adjusted for inflation and expressed in 2002 dollars.)

According to the CBO estimates, if the unemployment rate rises to about six percent, the Ways and Means proposal would result in an additional $4.6 billion in UI expenditures over the next two years. That would be a small fraction of the amount of additional federal UI assistance provided in the recession of the early 1990s.

(The increase in UI expenditures in 2002 and 2003 would be offset somewhat by a decrease in expenditures in 2004 and 2005, according to CBO. This reflects the fact that states would spend more funds sooner, because they would have more funds available sooner, but would thus have fewer funds to spend in later years. CBO estimates that the Ways and Means proposal would lead to a net total of $3.6 billion in additional unemployment insurance expenditures — including expenditures for administrative costs — over the next five years.)

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[2] CBO estimates that $700 million of these funds that would be expended in fiscal year 2002 if the FY 2002 unemployment rate averages 5.1 percent, as CBO projected in its August economic forecast. Most private forecasters believe that forecast, which was issued before the terrorist attacks and assumed no recession would occur, is now obsolete. Under a more pessimistic scenario that assumes unemployment will rise close to six percent (which reflects the current consensus of private forecasters), CBO estimates that $2.3 billion of these funds would be spent in fiscal year 2002, with a similar amount spent in fiscal year 2003.

Misallocation of Funds

The distribution of federal unemployment insurance funds under the Ways and Means proposal is likely to deviate substantially from the amount of additional funding each state will need to meet the demand for increased UI benefits. The Ways and Means bill allocates funds to states in proportion to where federal UI revenues raised, without regard to the relative levels of need among the states.

No one can predict exactly where unemployment will increase the most. Two possible scenarios can be considered, however, that illuminate the degree to which the Ways and Means bill fails to allocate funding among the states in a manner that comes close to matching the relative levels of need among states for additional unemployment benefits. The first scenario assumes each state's relative need for funding for additional unemployment benefits is consistent with the percentage of unemployment benefits nationwide that were paid in that state in 2000. In other words, if five percent of all unemployment benefits nationally were paid in a state in 2000, the state is assumed to need five percent of the funding for additional unemployment assistance. Under this scenario, Georgia would need 1.5 percent of the funds that would be distributed because it accounted for 1.5 percent of the unemployment benefits paid in 2000. But under the Ways and Means bill, Georgia would receive 3.1 percent of the funds that would be transferred.

By contrast, the state of Washington would receive only two percent of the funds that would be transferred although it would need much more than that. Washington accounted for about four percent of the unemployment benefits issued in 2000. Moreover, the estimate that Washington would need four percent of additional unemployment insurance funds because it accounted for four percent of the unemployment benefits in 2000 almost certainly understates what the need in Washington state will be. As a result of the shocks to the aviation sector of the economy and resulting lay-offs at Boeing, unemployment is likely to increase in Washington by a larger percentage than it increases nationally. During the last year, the percentage increase in unemployment in Washington was about 30 percent greater than the overall national increase in unemployment.

Under the second scenario we examine here, the percentage of additional federal unemployment funds that a given state needs is assumed to equal the state's share of the increase nationally in the number of unemployed individuals between the fourth quarter of 2000 and the third quarter of 2001. In other words, if a state accounted for five percent of the increase in unemployment nationally over this period, the state is assumed to need five percent of the additional federal unemployment insurance funds. (Each state's increase in the number of unemployed individuals over this period is seasonally adjusted, using the seasonal adjustment factors the Bureau of Labor Statistics employs. The state increases also are adjusted to reflect variations in average state unemployment benefit levels.)

Nationally, the number of unemployed individuals increased by 16 percent between the fourth quarter of 2000 (when the overall unemployment rate was at its lowest level) and the third quarter of 2001. The variation by state, however, is enormous. The number of unemployed individuals *declined* in seven states over this period. At the same time, the number of unemployed individuals increased by 20 percent or more in 20 states, and by 30 percent or more in 11 of those states.

Under this scenario as well, the Ways and Means bill's method of allocating funds is out of kilter with state needs. For example, Massachusetts would receive 3.4 percent of the funds transferred to state accounts under the Ways and Means bill. But Massachusetts accounts for 7.4 percent of the increase in unemployment since unemployment began to rise. Similarly, Michigan would receive about 3.6 percent of the funds under the Ways and Means proposal but accounts for 7.1 percent of the increase in unemployment. Illinois would receive 4.7 percent of the funds, a much smaller share than its 6.8 percent share of the increase in unemployment.

Share of Funds that Selected States Would Receive Under Ways and Means Bill As Compared to Their Relative Need for the Funds Under Two Illustrative Scenarios

	State share of total allocation under Ways and Means bill	State Share of Unemployment Benefits in 2000	State Share of Increase in Unemployment Levels, 4th Quarter 2000 to 3rd Quarter 2001[1]
California	11.5%	11.8%	5.8%
Florida	5.5%	3.2%	5.5%
Georgia	3.1%	1.5%	1.4%
Illinois	4.7%	6.0%	6.8%
Indiana	2.2%	1.5%	4.5%
Louisiana	1.4%	0.9%	-1.3%
Massachusetts	2.4%	3.9%	7.4%
Michigan	3.7%	4.5%	7.1%
New Jersey	3.0%	5.6%	2.6%
New York	6.1%	7.9%	1.7%
North Carolina	3.0%	2.4%	5.8%
Oregon	1.2%	2.1%	3.9%
Pennsylvania	4.3%	7.3%	2.1%
Texas	7.4%	5.0%	12.0%
Virginia	2.7%	0.9%	3.0%
Washington	2.1%	4.3%	3.3%

[1] Increase in seasonally adjusted unemployment levels between 4th quarter of 2000 and 3rd quarter of 2001, adjusted for average UI benefit levels.

Under both scenarios, the distribution of the funds transferred under the Ways and Means bill is likely to be at odds with the distribution of need for additional unemployment assistance for laid-off workers. This is because the $9.2 billion that would be transferred to state accounts would be allocated among states not on the basis of current unemployment levels or recent growth in unemployment, but (as noted above) in accordance with the proportion of federal UI revenues that were collected in each state. The funds allocated to many states would bear little relationship to these states' needs for additional unemployment benefits.

In past recessions, these problems were avoided because no allocation formula was used to allocate unemployment funds among states. The federal funds simply went to eligible unemployed workers, without having to be apportioned among states in accordance with some formula that would inevitably fail to reflect the current distribution of need.

Comparison of Ways and Means Bill to the Administration's Proposal

Less assistance for unemployed workers would be provided under the Ways and Means bill than under a proposal the Administration issued on October 4, a proposal that has drawn strong criticism for being parsimonious in the provision of unemployment benefits. Under the Administration's approach, workers who become unemployed after September 11 and exhaust benefits in New Jersey, New York and Virginia would be guaranteed an additional 13 weeks of federally funded benefits, as would workers who become unemployed after September 11 and exhaust benefits in a state where the unemployment rate has increased by at least 30 percent over its average level in the months of June through August. By contrast, under the Ways and Means bill, there is no guarantee of any additional weeks of benefits in any state; in most cases, additional weeks of benefits would be provided only in states that elected to provide these benefits and to finance them entirely from state unemployment accounts — something few states are likely to do.[3]

Yet while the Administration's proposal would provide an additional 13 weeks of benefits for some workers, the circumstances under which it would do so are quite restrictive.

- Only workers laid off after September 11 would qualify for additional weeks of benefits. Workers laid off in August would be ineligible even if unemployment climbs to high levels in their state and they are unable to find another job.

- Few workers would receive additional weeks of benefits until March 11, 2002. That would be the first time that unemployed workers who exhaust their regular 26 weeks of benefits would be eligible for these additional benefits. (A few workers might qualify earlier because they were not eligible for the full 26 weeks of benefits.)

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[3] Additional weeks of benefits also could be provided in states that qualify to pay "extended unemployment benefits," but few states are likely to qualify because the level of unemployment needed for a state to qualify to pay extended benefits is very high. In many states, the unemployment rate would have to rise to close to nine percent before extended unemployment benefits could be provided. (In the eight states that have adopted an optional extended benefits "trigger," the unemployment rate would have to rise to 6.5 percent before extended unemployment benefits could be provided.)

- If the current economic downturn turns out to be comparable to the recession of the early 1990s[4] and the national unemployment rate increases to slightly more than 6 percent, *no* additional weeks of benefits would be provided at any time in the majority of states.

In every previous recession of the last 30 years, federal legislation has guaranteed that unemployed workers in all states who exhaust their regular unemployment benefits are eligible for additional weeks of federally funded benefits. Both the Ways and Means bill and the Administration's proposal break sharply with historical precedent in this area. Both proposals also fail to address flaws in the unemployment insurance system that render many low-income and part-time workers ineligible for benefits.

The Ways and Means Bill Compared to the Cardin Bill

Rep. Ben Cardin (D-Md.), the ranking member of the Ways and Means subcommittee with jurisdiction over the unemployment insurance program, recently introduced legislation (H.R. 3022) to strengthen unemployment benefits for a temporary period through the end of calendar year 2002. The Cardin bill is cosponsored by a bipartisan group of seven other Ways and Means members.[5]

Under CBO estimates that assume the unemployment rate will increase to about 6 percent, the Cardin bill would provide about $26 billion of increased unemployment assistance to jobless workers. This is more than five times the amount of additional UI expenditures (including additional expenditures for administrative costs) that would result under the Ways and Means bill. Under the Cardin bill, every worker who exhausts his or her regular UI benefits after September 11 and cannot find a job would receive up to 13 weeks of additional benefits, regardless of where the worker lived.

The Cardin bill also would expand UI coverage temporarily to include more part-time and recently employed workers who lose their jobs. In addition, the bill would increase UI benefit levels by the higher of 15 percent or $25 dollars per week. Neither the Ways and Means proposal nor the Administration's proposal contains any such provisions.

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[4] For the downturn to be "comparable to the recession of the early 1990s" unemployment rates would need to rise by approximately the same amount that they did in the early 1990s. This does not mean that unemployment rates would reach the same levels as in the 1990s, since the base level of unemployment was somewhat higher before the last recession started than before the onset of the current downturn, but that the *increase* in unemployment would be comparable.

[5] The bill (H.R. 3022) has been co-sponsored by Representatives Rangel, Houghton, Stark, English, Levin, McDermott, and Coyne. Representatives Houghton and English are Republicans; the other co-sponsors are Democrats.

The first of these provisions would provide coverage to certain categories of workers now typically denied benefits. This part of the Cardin proposal is consistent with recommendations made by the Congressionally chartered, bipartisan National Advisory Council on Unemployment Compensation in the mid-1990s, as well as a "stakeholders agreement" on UI reforms hammered out last year by representatives of business, labor, and state governments.

- Under the Cardin bill, part-time workers who are laid off, are looking for comparable employment, and meet all other UI eligibility criteria would be eligible for UI benefits. Currently, part-time workers in the majority of states are *not* eligible for UI benefits, regardless of whether they otherwise qualify for benefits on the basis of their wage history and regardless of the fact that UI taxes were paid on their behalf. In these states, part-time workers — who represent about one-sixth of the U.S. labor force — are ineligible simply because they are not available for full-time work. Those disqualified by this restriction include women with young children who work 70 percent or 80 percent time but are not available to work full time. A December, 2000 GAO reported noted that "in the last decade, unemployed low-wage workers appeared far less likely to receive UI benefits than other unemployed workers, even though low-wage workers were twice as likely to be unemployed."[6] The report attributes some of that discrepancy to the difficulties that many low wage workers, and particularly many former welfare recipients, may have complying with state eligibility requirements. Provisions of the Cardin bill eliminate some of the difficulties that the GAO report noted. Under the Cardin bill, for example, an unemployed mother who is looking for 30 hours of work a week but is unavailable for work 40 hours a week because of child care considerations would be eligible for UI benefits.

- In addition, under the Cardin bill, the most recent work experience of unemployed workers would be considered in determining their benefits. Currently, in most states, up to six months of an unemployed worker's most recent work experience is ignored in determining the worker's UI eligibility. In these states, wages earned in the most recent calendar quarter and the previous quarter are not counted. (This procedure is a relic of unemployment insurance procedures established decades ago before the advent of widespread computerization when data on recent earnings were not readily available.) As a result of these procedures, many low-wage workers who have entered the labor market fairly recently and would qualify for benefits upon being laid off if their recent work experience were counted end up receiving *no* benefits (or do not begin receiving benefits until they reapply several months later). Such denials and delays are not desirable either for the laid-off workers or for an economy in need of immediate stimulus. These procedures

[6] "Unemployment Insurance: Role as a Safety Net for Low-Wage Workers is Limited." United States General Accounting Office, December 2000. GAO-01-181.

are particularly disadvantageous to low-income parents who recently worked their way off welfare and have children to support.

The Cardin bill also raises unemployment insurance benefit levels. In 2000, the "replacement rate" for unemployed workers receiving UI benefits was about 47 percent. In other words, unemployment benefits replaced an average of 47 percent of unemployed workers' lost wages. By contrast, in western Europe, unemployment benefits replace an average of more than 60 percent of lost wages.[7]

- In many jurisdictions across the country, the Fair Market Rent equals more than two-thirds of the maximum monthly unemployment benefit. (The Fair Market Rent for a local area is HUD's annual estimate of the rent and utility costs for a modest apartment in the area; this estimate equals the cost of an apartment at the 40th percentile of rental housing costs in the area.) This is an indication that unemployment benefits often are not sufficient to meet basic needs.

- The Cardin bill provides for an across-the-board, federally funded increase in the benefits of all UI recipients equal to the greater of 15 percent of a worker's unemployment benefit or $25 a week. Since the average weekly benefit in the first quarter of 2001 was $231, recipients would receive an average of about $35 a week in additional benefits. Increasing the level of UI benefits as the Cardin bill would do would have positive consequences for the economy as well as assisting the unemployed, since most of these benefits would be spent quickly. Furthermore, a situation in which consumers are unable to pay their bills is not healthy for business.

The Cardin bill has one final virtue — it avoids the problem the Ways and Means bill poses of misallocating funds relative to the levels of need in the states. The Cardin bill does not allocate funds to each state based upon some formula. Dollars simply flow to unemployed workers. As a result, the areas with the highest levels of unemployment would automatically receive the greatest infusion of dollars.

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[7] World Labor Report 2000, as cited by the International Labour Organization, http://www.ilo.org/public/english/bureau/inf/pkits/wlr2000/wlr00ch3.htm