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THE MISMATCH BETWEEN FEDERAL UNEMPLOYMENT BENEFITS AND CURRENT LABOR MARKET REALITIES

Joblessness outlasting assistance for three-fourths of program recipients

By Isaac Shapiro[1]

Over the summer, month-after-month of continued job losses led to a growing consensus on the effects of the recent economic cycle. Contentions that workers have not been hit hard have faded in the wake of new studies and new labor market developments.

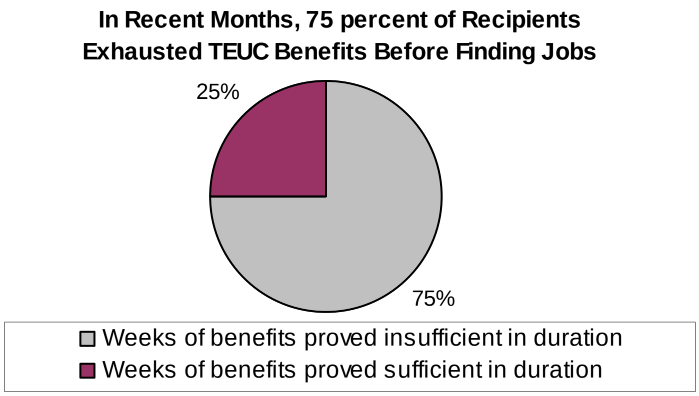
- A range of analyses — including studies by the Federal Reserve Bank of New York and the Congressional Budget Office — have found that when it comes to job creation this “recovery” has been notably lacking, with the job creation record worse than in the wake of all previous post-World War II downturns. In September there were still 2.7 million fewer jobs than there were when employment levels last peaked.

- A variety of labor market indicators suggest that it is extremely hard for people who have lost their job to find a new one. For example, a larger share of the unemployed are now considered to be “long-term” unemployed than in any other month in the last 20 years.

This growing consensus, however, has not yet led to a reassessment of the adequacy of the federal Temporary Extended Unemployment Compensation (TEUC) program that provides additional weeks of benefits to those who have exhausted their regular, state benefits. It should; it is clear the design of the program is not suitable to address the severe weaknesses in the labor market. For the large majority of program recipients, the TEUC program is failing to provide enough weeks of assistance to outlast their unemployment spells. Specifically, this analysis finds:

- The duration of TEUC benefits has recently been insufficient for three of every four recipients. They have not been able to find a job before their benefits ran out.

[1] I would like to thank my ex-colleagues Jessica Goldberg and Wendell Primus. This paper builds off of work we engaged in together while they were at the Center on Budget and Policy Priorities. Thanks also to Martha Coven and David Kamin of the Center for their contributions to this paper.



- Since the TEUC program began, some 3.8 million people have been unable to find work before their benefits ended. The number of unemployed workers exhausting all their benefits has been substantially higher than in the wake of the downturn of the early 1990s.

- A main reason TEUC benefits are proving insufficient for so many people is that the program does not provide enough weeks of assistance; for example, the temporary federal program in place in the early 1990s sustained jobless workers for many more weeks than the current one does.

In addition, this analysis finds that the percentage of recipients who are exhausting their TEUC benefits in recent months appears to be higher than earlier this year. That is, in recent months, if anything, the TEUC program has proven to be less adequate than before.

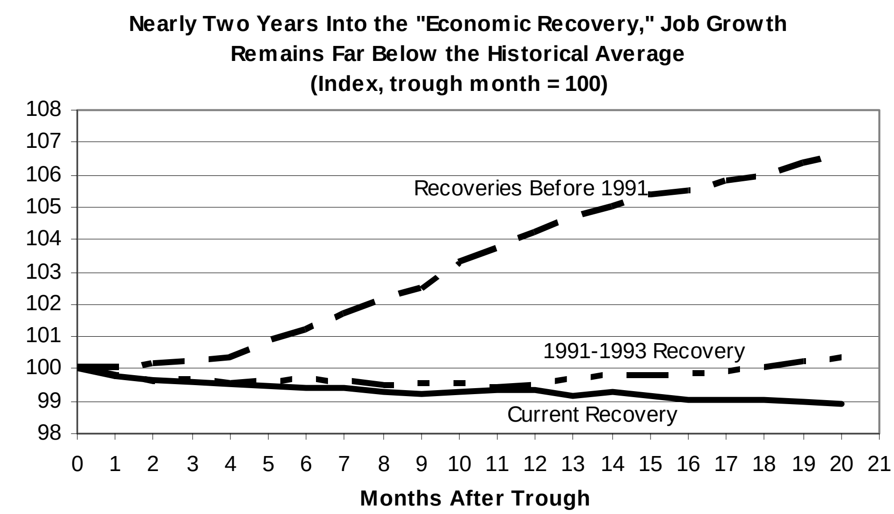
These and other issues are discussed in more detail below. The paper also examines the relationship between strengthening TEUC benefits and job creation efforts, as well as the argument that TEUC improvements are unwarranted because the unemployed need "paychecks not unemployment checks." The paper concludes that the TEUC program should be strengthened so that it provides additional weeks of benefits to current recipients, as well as to those who have already exhausted their benefits but remain unemployed.

Current Labor Market Conditions

It has largely been trends in the number of jobs that has led to the new consensus assessment of the nature of the current economic cycle. The enduring nature of job losses has made this cycle different from previous periods of labor market weakness.

- In September 2003, there were 2.7 million *fewer* jobs than there were in February 2001, the most recent peak in the number of jobs in the economy. Indeed, there are one million fewer jobs today than there were in November 2001, the month the downturn officially ended. (These data, as discussed in the footnote, come from the Labor Department's "payroll survey.")[2]

- Amongst others, a recent study by the Federal Reserve Bank of New York found that *the decline in the overall number of jobs this far into the recovery is unprecedented in the post-World War II era*. Specifically, the study found that since the end of World War II, it is only during the current recovery and during the initial months of the recovery in the early 1990s that there has been a sustained divergence between general economic growth and job trends.[3] Moreover, the study noted that during the current recovery job losses actually continued after growth picked up while in the early 1990s the number of jobs was stagnant after growth picked up. A recent study by the Congressional Budget Office reached essentially the same conclusions.[4]



Note: Recoveries before 1991 is the average of seven recoveries during the 1949-2000 period, excluding the 1980 recovery. The economic cycles here are as designated by the National Bureau of Economic Research. The trough of the last recession was November 2001
Source: CBO, *Budget and Economic Outlook: An Update,* August 2003, p. 33.

[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, though even according to the household survey job trends during this recovery are far worse than during the typical post-World War II recovery. In addition, 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 preferable to the household survey in assessing current employment trends.

[3] 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.

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

And while recent data from the U.S. Department of Labor have included some positive developments, these developments are hardly enough to indicate that the labor market is now strong. First, the number of people filing for regular, state unemployment insurance benefits in the week that ended October 4 fell to its lowest level since February, suggesting fewer additions to the ranks of the unemployed. At the same time, however, in the week that ended October 4, the average number of unemployed workers receiving state benefits was 3.64 million, a high level that has been more-or-less constant since early July, suggesting that is still hard for those who do become unemployed to find a job.

Secondly, after seven straight months in which the number of jobs declined from the previous month, there were 57,000 more jobs in the economy in September than in August. This is, however, a quite modest amount of new jobs. At a pace of 57,000 jobs a month, it would take another 47 months — or close to *four more years* — before the number of jobs in the economy would return to the level in February 2001. This level of job creation also is unlikely to drive the unemployment rate down, because it is less than is needed to keep up with expected labor force growth. Even if job growth becomes much more robust, it would still take a sustained period before it would be possible to conclude that the labor market is healthy again.[5]

Moreover, several other key labor market indicators in September were actually worse than they were in August. Of most relevance to the TEUC program, these include the indicators that relate to how difficult it is for people who do lose their job to find new employment. As one example, long-term unemployment jumped in September to an exceptionally high level.

- The number of unemployed workers who had been out of a job for more than 26 weeks rose to 2.1 million people in September, the largest number in 11 years.

- The share of the unemployed who had been out of work for more than 26 weeks rose to 23.2 percent. In September the share of the unemployed who were considered long-term unemployed was larger than in any month in 20 years.

Another labor market indicator of interest provides information about how hard it is for unemployment insurance recipients themselves to find new jobs. In July and August, the latest data available, the percentage of workers beginning to receive regular unemployment benefits who subsequently exhaust those benefits without finding work equaled 43.8 percent, the highest level on record. (These data go back to 1972. The most recent figure is the highest ever recorded.)

Nearly Four Million TEUC Recipients Have Run Out of Aid before Finding Work

Since it takes the unemployed longer to find jobs when the labor market is weak, the TEUC program was put in place so people would have more weeks of unemployment insurance benefits to tide them over until they find employment. But data from the U.S. Department of Labor demonstrate that, more often than not, the program has not accomplished this purpose.

[5] To illustrate, if job growth were to occur at three times the September level, or at 171,000 jobs per month, it would take another 16 months for the number of jobs in the economy to return to the February 2001 level.

- Of the 5.7 million workers who started receiving TEUC benefits between the program's inception in March 2002 and the end of May 2003, some 3.8 million workers were unable to find new employment before their TEUC benefits expired.[6] Thus, two of every three individuals who have received TEUC benefits — 68 percent — used up all of these benefits before they were able to secure employment. Many remain without work today.

- In July and August, the most recent months for which these data are now available, the exhaustion rate was close to 75 percent. Thus, more recently *three of every four individuals* receiving TEUC benefits used up all their weeks of benefits without finding employment. Thus, the most recent data suggest that, if anything,[7] it is becoming even more likely that TEUC recipients are exhausting their benefits before find a job.

The workers who have already exhausted both their state and federal unemployment benefits and are still unemployed are among the hardest hit by the weak economy. These workers, many of whom have been unemployed for nine months or longer, have neither paychecks nor unemployment insurance benefits to spend upon basic living expenses. (Even when workers do receive benefits, they 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 62 percent of those unemployed for nine months or longer have substantially depleted their savings, and just over half have borrowed money to meet basic expenses. The survey also found that more than half of all unemployed workers had cut back on spending on food and more than half had also postponed medical or dental treatment.[8] Studies conducted prior to the recent downturn showed how long-term unemployed workers without unemployment benefits are much more likely than workers still receiving benefits to be poor.[9] In addition, the large majority of unemployment insurance

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[6] The latest data on the total number of unemployed workers who have exhausted their TEUC benefits (3.8 million people) runs through the end of August, the latest month for which these data are available. This analysis compares that number to those who ever received benefits through May (5.7 million people). This comparison reflects the fact that TEUC benefits typically last 13 weeks; so unemployed workers who begin to receive benefits in May would not show up as exhausting these benefits until August. This approach to calculating the "exhaustion rate" for the TEUC program follows the approach used by the Department of Labor for calculating the exhaustion rate for recipients of regular, state benefits.

[7] The exhaustion rate of 75 percent over more recent months is greater than the 68 percent exhaustion rate over the entire course of the program, indicating that the rate is now higher than before. Since, however, the data are not seasonally adjusted it is possible the observed increase in the exhaustion rate is simply an artifice of monthly employment and unemployment patterns. Thus, the "if anything" qualification is used in the text.

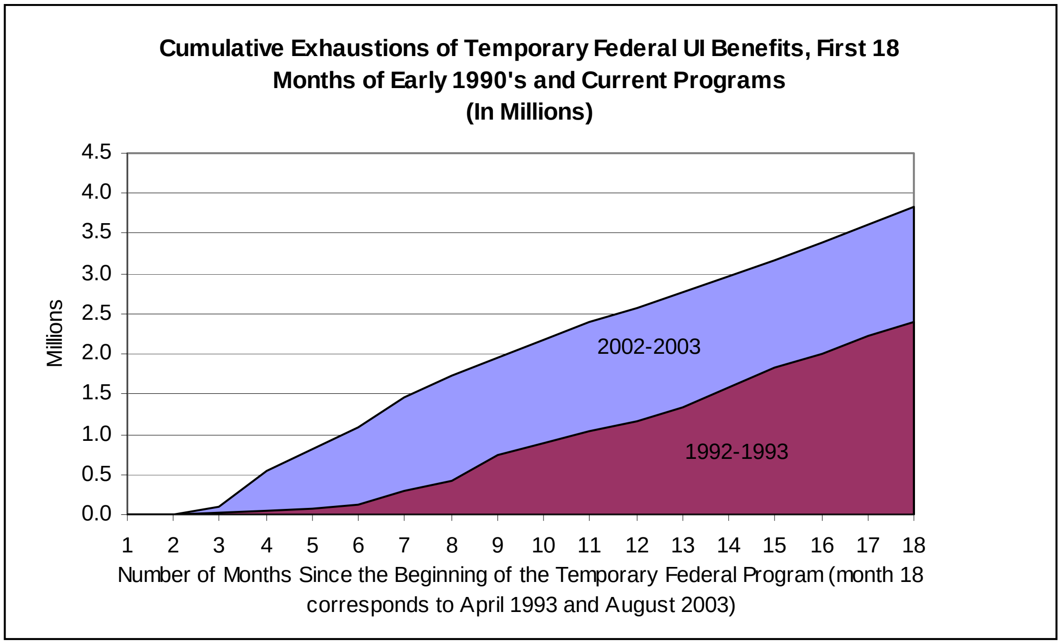
[8] Survey by Peter D. Hart Research Associates commissioned by the National Employment Law Project, "Unemployed in America," conducted April 17-28, 2003.

[9] *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.

recipients do not have substantial enough savings to sustain their families through a lengthy bout of unemployment.[10]

Strong Likelihood of Exhausting Benefits Reflects Weaknesses in the TEUC Program

The strong likelihood that TEUC recipients will use up their benefits before they find a job reflects both the rise in the duration of long-term unemployment as well as the structure of the TEUC program. The TEUC program is weaker, for instance, than the temporary federal benefits program in place in the early 1990s. Through the end of August, 60 percent more workers had run out of temporary federal benefits without finding jobs at this stage of the TEUC program than at the same stage of the temporary federal program Congress created during the recession of the early 1990s.[11]



The current program offers less assistance than the earlier program even though job loss over time has been more serious in the current period. The TEUC program is weaker than the earlier program in two respects.

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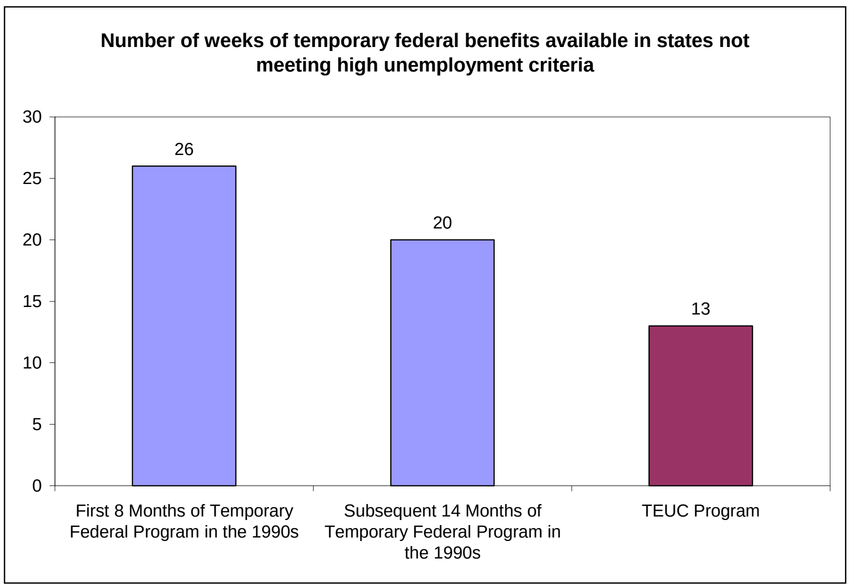
[10] Jonathan Gruber, "The Consumption Smoothing Benefits of Unemployment Insurance," *The American Economic Review*, March 1997, Volume 87, Issue 1. This study found that more than 80 percent of workers who become unemployed have savings equal to less than two months of income when they lose their jobs.

[11] As the minority staff of the Joint Economic Committee has found, even after adjusting for the increase in the number of workers covered by the unemployment insurance system between the early 1990s and the present, 33 percent more workers have exhausted benefits since the start of the TEUC program than in a comparable period during the early 1990s.

- The TEUC program provides *fewer weeks of benefits* to the long-term unemployed than did the comparable program in the early 1990s. Most notably, as illustrated in the graph, the TEUC program provides at least 13 weeks of benefits in all states; at a comparable stage, the early 1990s program provided at least 20 weeks of benefits in all states. If the current program also provided 20 weeks of benefits in all states, substantially more unemployed workers would be finding work before they had exhausted their TEUC benefits.

- Under TEUC, *fewer states qualify as "high unemployment" states*, which triggers the provision of 26 weeks of benefits. Currently, just five states qualify as high unemployment states — Alaska, Michigan, North Carolina, Oregon, and Washington State.



More Weeks of TEUC Benefits May Spur Job Creation, Revealing Fallacy of the "Paychecks, not Unemployment Checks" Argument

While there has been consensus developing around the severity of current labor market problems, many are likely to resist the idea of strengthening the TEUC program as a partial response. The Administration, for instance, has consistently argued that its goal is to make sure everyone has a job, and many have made the argument that paychecks are preferable to unemployment checks. All share this goal for a job and a paycheck, but for many workers it is currently unachievable. As discussed earlier, not enough jobs are available now, nor will they be for an extended period of time.

Further, additional TEUC benefits may spur job creation. In fact, a study by Economy.com found that on a per-dollar basis unemployment insurance was the single best mechanism to boost the economy that has been under discussion, including the range of different tax cuts, 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, areas in which long-term unemployment is concentrated and stimulus is needed most. (Similarly, if the goal is to aid the unemployed, unemployment insurance is far better targeted on assisting those who need it then generalized efforts to create jobs.)

Finally, the concern is sometimes expressed that unemployment checks encourage workers to remain unemployed. In the current labor market, this concern is not well-founded. As Federal Reserve Chairman Alan Greenspan testified at the end of last year, when the labor market was stronger than it is today, extending unemployment insurance benefits while the labor market is weak does not raise the danger of prolonging unemployment spells.[12]

An op-ed in the October 13, 2003 *The Wall Street Journal* nonetheless repeats the concern that temporary federal benefits have "slowed the rate at which the unemployed find jobs," citing studies that show "a significant surge in job finding in the weeks just before benefits run out."[13] This op-ed ignores Chairman Greenspan's conclusion that such a concern does not apply when the labor market is weak. Further, the fact that three of every four recipients are now exhausting their TEUC benefits before finding a job suggests that any "surge in job finding just before benefits run out" does not apply to the vast majority of TEUC recipients.

Conclusion

The TEUC program is currently scheduled to begin to phase out at the end of this year. The wide range of labor market indicators cited above not only suggest that the TEUC program should be extended, but also that it needs to be strengthened so that it provides a more adequate response to today's severe labor market problems. The program should provide additional weeks of benefits so that it is less likely that the unemployed will exhaust these benefits before they find a job.[14]

The federal unemployment insurance trust fund contains enough funds to bring the TEUC program more into line with the program from the early 1990s. Indeed, funds were paid into the unemployment insurance trust fund for precisely this situation — to draw upon during economic downturns. Moreover, any effect on the overall budget deficit would be small and temporary. TEUC is a temporary program that will not and should not be made permanent, and will not influence the deficit beyond the short term.

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[12] At a Joint Economic Committee hearing on November 13, 2002, Chairman Greenspan said: "But when you get into a period where jobs are falling, then the arguments that people make about creating incentives not to work are no longer valid and hence, I have always argued that in periods like this the economic restraints on the unemployment insurance system almost surely ought to be eased to recognize the fact that people are unemployed because they couldn't get a job not because they don't feel like working. That is clearly the case now and is likely to be the case in the immediate future."

[13] Martin Feldstein, "There's No Such Thing As a 'Jobless' Recovery," *The Wall Street Journal*, October 13, 2003.

[14] Legislation that, among other steps, would increase the number of weeks of TEUC benefits has recently been introduced in the House (H.R. 3244) and Senate (S. 1708).