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APPROACHING THE DEADLINE

What type of unemployment benefits extension should be adopted, and when?

By Isaac Shapiro

Congressional leaders have indicated their intent to adjourn for the year by November 21 and the federal Temporary Extended Unemployment Compensation (TEUC) program will begin to phase out at the end of this year. Nonetheless, the majority leaderships in the House and Senate, as well as the White House, have been nearly silent about their intentions for this program. Among the few tidbits of information that have been issued to the media indicate Congressional leaders are in no hurry to act and are considering scaling the program back.¹

These indications are worrisome. Despite the recent gains in national employment levels, the still-weak labor market situation strongly suggests that the TEUC needs to be continued. Indeed, the labor market situation and some of the deficiencies that have become apparent in the TEUC program suggest that, if anything, the program needs to be strengthened, not weakened.

The need to extend the program

Each month, hundreds of thousands of new individuals still require assistance from the TEUC program. Absent Congressional action, starting January 1 workers who exhaust their regular, state benefits will not be eligible for additional federal TEUC benefits. (The only people who will continue to receive benefits will be those already enrolled in the program at the end of this year.) This year, an average of 370,000 workers have exhausted their state unemployment insurance benefits each month. In the first half of next year alone, two million or more workers will likely exhaust their regular benefits and, unless TEUC is extended, will go without either a paycheck or an unemployment check.

Labor market conditions are weaker now than when the TEUC program was first enacted in March 2002. Even after accounting for the recent growth in employment, the overall labor market is weaker now than it was when the TEUC program was established

¹ One recent press story reported "House GOP leaders are considering paring back the program to provide perhaps nine weeks of extended benefits or not include the extra benefits for high-unemployment states, [Representative] Dunn said." Brian Tumulty, Gannett News Service, "Long-term unemployment persists despite improvement in job statistics," *The Olympian*, November 8, 2003.

Table 1		Situation when TEUC was enacted
	Latest Data	
	October 2003	March 2002
Unemployment Rate	6.0%	5.7%
Unemployment Level	8.78 million	8.22 million
Number of Jobs	130.132 million	130.481 million
Long-term Unemployed	2.02 million	1.32 million

in March of 2002. As Table 1 indicates, the unemployment rate is higher now than when the TEUC program began, and the number of long-term unemployed — individuals who have been unemployed for 26 weeks or more — is more than 50 percent higher than at the start of the program. In addition, there were 349,000 fewer jobs in October 2003 than in March 2002.

In the past, comparable programs did not end until labor market conditions had improved significantly and for a sustained period; such a turnaround may only be beginning.

- In the early 1990s, the temporary federal benefits program then in place did not end until the number of jobs was considerably higher than when the downturn of the early 1990s began. Currently, even after accounting for recent job growth, there are still considerably *fewer* jobs — 2.4 million fewer jobs to be precise — than when the downturn began in March 2001.
- Similarly, in the early 1990s the temporary federal benefits program did not cease until the number of unemployed workers exhausting their regular state benefits — and therefore in need of federal help — had declined for 19 consecutive months. That measure *increased* for the 24 consecutive months from March 2001 through February 2003. The measure has declined modestly since then, but on an erratic basis. In September, the latest data available, there were somewhat fewer regular program exhaustees than in February, but more exhaustees than in July and August.

“Waiting until January” would be a damaging approach for many of the unemployed. It is possible that Congress will depart for the year without taking any action on the TEUC program. Some may then assert that the issue of whether to extend the program, and in what form, can be dealt with easily upon Congress’ return. From the perspective of many of the unemployed, this approach would be damaging.

Starting in January, about 80,000 unemployed workers are likely to exhaust their regular benefits *each* week. Unless Congress returns very early in January and acts almost immediately, these workers will not receive additional benefits in a timely basis. Until Congress acts, moreover, unemployed workers also will not know whether to plan on receiving additional benefits since they can hardly be expected to be able to predict what actions Congress will take.

The precarious financial situation most long-term unemployed people find themselves in means that any delay in receiving TEUC benefits, or any confusion in their own financial planning, can be quite harmful. 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. In addition, the large majority of unemployment insurance recipients do not have substantial enough savings to sustain their families through a lengthy bout of unemployment. A widely-cited 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.²

Why the program needs to be strengthened

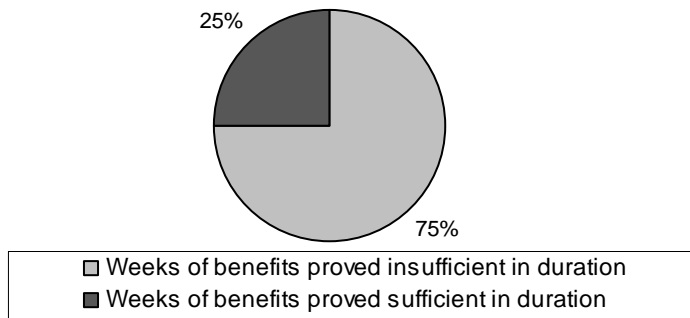
With the labor market beginning to move in a positive direction, arguments that the TEUC program should be pared back might seem reasonable at first blush. Not only, however, do these arguments fail to take into account that the labor market in key respects is still weaker than it was when the program began, they also fail to consider the compelling evidence that the current TEUC program itself is too weak. On balance, this evidence suggests that the TEUC program should be strengthened.

For the large majority of program recipients, the TEUC program is failing to provide enough weeks of assistance to outlast their unemployment spells.

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

² Jonathan Gruber, "The Consumption Smoothing Benefits of Unemployment Insurance," *The American Economic Review*, March 1997, Volume 87, Issue 1.

In Recent Months, 75 percent of Recipients Exhausted TEUC Benefits Before Finding Jobs



- Since the TEUC program began, *more than four 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. Through the end of September, 57 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.³
- 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. 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.

The program’s “high unemployment” trigger is flawed. Under TEUC, unemployed workers states that meet the high unemployment trigger can qualify for up to 26 weeks of TEUC benefits, instead of the typical maximum of 13 weeks. But as a recent study by the National Employment Law Project documents, the stringency of this trigger and quirks in its design result in just five states — Alaska, Michigan, North Carolina, Oregon, and Washington State — qualifying for the program today. Moreover, due to the restrictive nature of the trigger, NELP found that except for Alaska all of these states are expected to lose eligibility in the next few months if the trigger is not amended as part of an extension.

³ 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, nearly a third more workers have exhausted benefits since the start of the TEUC program than in a comparable period during the early 1990s.