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TEMPORARY FEDERAL UNEMPLOYMENT BENEFITS SHOULD BE EXTENDED IN ALL STATES AND STRENGTHENED

Administration Position Remains Unclear Despite President's Statement

By Wendell Primus, Isaac Shapiro, and Jessica Goldberg

The federal Temporary Emergency Unemployment Compensation (TEUC) program, which provides additional weeks of unemployment insurance to jobless workers who have exhausted their regular, state-funded unemployment benefits without finding a job, is scheduled to expire on December 28. In his December 14 radio address, President Bush, who previously had not acted to prevent this program from expiring, called on Congress to make “extending” the program “a first order of business” upon its return in early January. The President was unclear, however, as to what type of extension he supports.¹

The issue of *how* TEUC should be extended is important. The House and Senate passed very different bills to extend TEUC in November: the House bill, designed by that chamber's leadership, would have scaled back the program sharply and ended it after five weeks, while the bipartisan Senate bill would have extended the program in full for three months. While neither bill would have done anything to help the roughly one million workers who already have run out of TEUC benefits without finding work, there may be some renewed interest in Congress in providing these workers with additional weeks of benefits in light of the worsening unemployment situation — and in light of the fact that doing so would provide a greater “bang for the buck” than competing economic stimulus proposals.

This report finds that the TEUC program should be extended fully and should be strengthened by providing additional weeks of benefits to workers who have run out of TEUC benefits without finding jobs. Fully extending and strengthening the program:

- is warranted by current labor market conditions;
- is consistent with federal policy in past downturns; and
- would help stimulate the economy.

¹ See “What Type of Unemployment Insurance ‘Extension’ Does the President Support?,” <http://www.cbpp.org/12-14-02ui.htm>

What Is the TEUC Program and Which Groups of Workers Would Be Affected By Extending and Strengthening It?

Unemployed workers in most states are eligible for up to 26 weeks of regular, state-funded unemployment benefits. In March 2002 Congress created the Temporary Emergency Unemployment Compensation (TEUC) program to supplement these benefits. TEUC is designed to assist workers who run out of these state benefits before they are able to find jobs. TEUC — and the similar temporary federal programs that were enacted during the economic downturns of the early 1980s and early 1990s — reflect the understanding that during recessions, people who become unemployed tend to be out of work longer than during more prosperous periods and that the typical 26 weeks of state benefits may be inadequate. These temporary federal programs also are designed to stimulate a slow economy by injecting dollars directly into local communities.

Under TEUC, workers generally qualify for up to 13 weeks of federal benefits. In states that meet the program’s “high unemployment” criteria, workers are eligible for up to 26 weeks of federal benefits, but those criteria are sufficiently restrictive that only three states — Alaska, Oregon, and Washington — currently qualify.

TEUC will expire December 28, at which point all benefits provided under the program will cease. Congress is expected to reconsider the future of the program when it convenes in January. The decisions Congress makes in this matter would affect three groups of unemployed workers:

- **Roughly 780,000 jobless workers whose TEUC benefits will be prematurely cut off when the program expires December 28.**² As of December 28, a worker who began receiving TEUC benefits at the beginning of December, for example, will have received only four of the 13 weeks of benefits for which he or she qualified; unless the program is extended, such a worker will not receive the remaining nine weeks of benefits. There now appears to be widespread agreement across Congress and the Administration that this group should receive some more weeks of benefits, although the House-passed bill to extend TEUC would cut these benefits off at the end of January.
- **An additional 95,000 jobless workers per week who will exhaust their regular, state-funded unemployment benefits after December 28 but will receive no TEUC benefits if the program is not restarted.** By the end of March, 1.2 million workers are expected to fall into this category. The House-passed bill to extend TEUC would assist these individuals only if they live in a tiny handful of states that meet stringent “high unemployment” criteria, and only for five weeks. The Senate-passed bill to extend TEUC continues current TEUC law and would provide assistance to these workers in all states until the end of

² This estimate is six percent lower than an earlier estimate released by the Center on Budget and Policy Priorities. In early October, a Center paper predicted that 830,000 workers would have their temporary federal unemployment insurance benefits terminated when the TEUC program expires on December 28. The revised estimate reflects the most recent data and also incorporates improvements to the estimation methodology.

March. The President has not taken a position on whether to assist these workers or to end TEUC except for those workers already receiving TEUC benefits as of December 28.

- About one million jobless workers who have already exhausted their TEUC benefits but have yet to find work.** Because of weaknesses in the current TEUC program, the number of individuals who have exhausted their TEUC benefits without finding work since the program was established in March is *more than double* the number who exhausted their benefits over a comparable period under the temporary federal program established in the early 1990s. (The number of workers exhausting these benefits without finding employment is much larger in the current downturn in significant part because the TEUC program provides fewer weeks of benefits than did the temporary federal unemployment benefits program in place during the downturn of the early 1990s.) Many of these workers have gone without a paycheck or an unemployment check for a considerable period of time. Some members of both parties in both the House and Senate have expressed support for providing additional weeks of benefits to these workers, although neither of the bills passed by the Senate or the House in November included such a provision. The President has not taken a position on this issue.

The chart below shows how these three groups of workers would be affected by the major legislative proposals that have been made to extend TEUC.

How Three Different Groups of Long-Term Unemployed Workers Fare Under Various Proposals			
Number of workers in each category	Workers Who Have Exhausted TEUC and Remain Unemployed as of the End of December	Workers Receiving TEUC Who Will Be Cut Off on December 28	Workers Who Will Exhaust Regular State UI Benefits Each Week After December 28
	1 Million	780,000	95,000 per week 1.2 million -- first quarter of 2003
Assisted by Various Proposals?			
President's Plan	Unclear	Yes	Unclear
Bi-partisan Senate Bill (HR 3529)	No	Yes	Yes, until the end of March
House Republican Leadership Bill (HR 5063)	No	Yes, for 5 weeks	Only in AK, OR, WA, for 5 weeks*
Comprehensive TEUC Extension (HR 5491/S 3009)**	Yes	Yes	Yes, until the end of June

Note: *Currently, only AK, OR, and WA meet the stringent "high unemployment" trigger. If unemployment increases sufficiently in other states, workers who exhaust regular state UI benefits in those states would also qualify for additional federal assistance under the House bill. **This package was introduced by Rangel in the House and Wellstone, Kennedy, and Clinton and co-sponsored by Gordon Smith in the Senate. It extends the program for six months in all states, provides additional benefits to workers who have exhausted their temporary federal benefits under the existing program, and modifies the "high unemployment" trigger.

Table 1 at the end of this document shows how many workers in each state fall into each of these three categories. It shows, for example, that

- Of the 780,000 total workers whose TEUC benefits will be cut off prematurely on December 28, some 105,000 are from California, 63,000 from New York, and 46,000 each from Texas and Pennsylvania. All of those workers would receive additional weeks of benefits under either the House or Senate bills, though those remaining on the program the first week in February would have their benefits terminated at that point under the House bill.

- Most of the 1.2 million workers who will exhaust their regular state unemployment benefits between TEUC's expiration and the end of March — including 14,400 each week in California, 8,500 weekly in New York, and 11,600 weekly in Texas — would receive additional weeks of federal benefits under the Senate bill but no assistance from the House bill. Under the House bill, only workers in Alaska, Oregon, and Washington and possibly a couple of other states where unemployment increases sufficiently for the state to meet the TEUC program's stringent "high unemployment" trigger would receive benefits, and then only for five weeks.
- Of the more than one million workers who have exhausted TEUC benefits nationally and would not be assisted by either the House or Senate bills, 108,000 are from California, 84,000 from New York, and 57,000 from Texas.

Why Should TEUC Be Extended in All States?

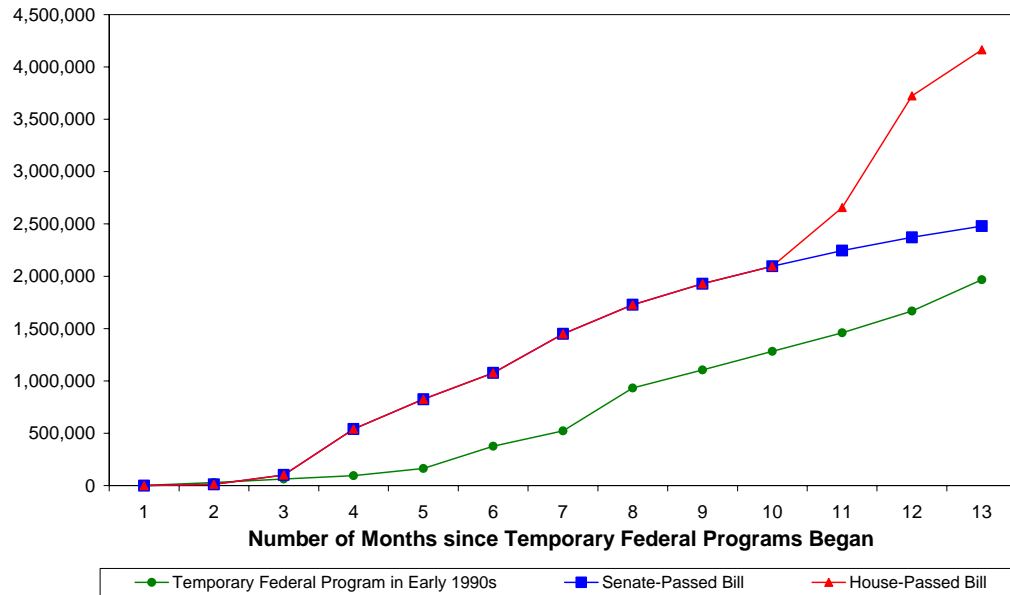
The single best measure of the need for an extension of the full TEUC program is the number of people exhausting their regular state-funded unemployment benefits without finding work. These are the workers whom TEUC was designed to assist.

- The number of workers exhausting their regular unemployment benefits without finding work has been significantly greater in every month of this year than in the same month of the previous year.

As the chart below shows, because the House bill would not extend TEUC beyond the end of January, it would lead to a sharp rise in the number of unemployed workers who are not eligible for any additional state or temporary federal unemployment benefits.

- The *percentage* of unemployed workers exhausting their regular unemployment benefits before finding work has reached a record level and is continuing to rise. In October 2002, some 47 percent of the workers who began receiving regular unemployment benefits six months earlier (in March) ran out of these benefits without finding work. This percentage, known as the "exhaustion rate," is the highest for any October on record. (These data go back to 1980. October 2002 is the latest month for which these data are available.) The high exhaustion rate for October is not an anomaly; the exhaustion rates for July, August, and September 2002 set record highs for those months as well.
- Scaling back TEUC significantly in January 2003, as the House bill would do, would depart significantly from the federal response to past economic slumps. In those earlier slumps, temporary federal unemployment benefits programs remained in place until the need for the program (as measured by the number of workers exhausting their regular benefits) declined substantially.

Cumulative Number of Unemployed Workers Who Are Not Eligible for Any Additional State or Temporary Federal Unemployment Benefits



Note: Month 10 corresponds to August 1992 and December, 2002. Data in months 9-13 are projections for the Senate and House bills.

For example, when the temporary federal program of the early 1990s ended in April 1994, the average number of exhaustees over the previous 12 months had been falling for *19 consecutive months*. Today, the average number of exhaustees is *still rising*. The 12-month average number of workers exhausting their regular unemployment benefits has increased in every month since March 2001.

The House Republican leadership has argued that TEUC does not need to be extended in all states because the current unemployment rate is lower than when the temporary federal benefits program of the early 1990s ended in April 1994.³ As noted above, it is the number of workers exhausting their regular benefits that is the best criterion for determining whether TEUC should be extended. But even if one uses the unemployment rate for this purpose, there are significant weaknesses in the House leadership’s argument:

- The most recent data (released after Congress’s adjournment) show an increase in the unemployment rate from October to November, to 6.0 percent.
- That 6.0 percent unemployment rate is *higher* than the rate when Congress created TEUC in March and matches the peak unemployment rate thus far in the current economic slump.

³ For a Center analysis of the House Republican arguments against a full extension of TEUC, see Wendell Primus and Jessica Goldberg, “A Response to Arguments Against Extending the Temporary Federal Unemployment Benefits Program,” December 10, 2002, <http://www.cbpp.org/12-6-02ui2.htm>.

- In past downturns, Congress extended temporary federal unemployment benefit programs as necessary and allowed them to expire only after unemployment had receded substantially. When the program of the early 1990s ended in 1994, for example, the unemployment rate had been declining for 10 of the previous 12 months and had fallen 1.4 percentage points from its peak during that recession. This is quite different from the situation today, when the unemployment rate is at its peak level to date for the current downturn.

Why Should TEUC Be Strengthened?

In addition to re-establishing the TEUC program in full, Congress should strengthen TEUC by providing more weeks of assistance to those who have exhausted their TEUC benefits and still not been able to find work. There are now about one million workers in this situation.

More jobless workers are exhausting their federal benefits today than in the last downturn. The actual number of workers who have exhausted their federal benefits since the TEUC program began in March is twice as large as the number who ran out of federal benefits over a comparable number of months in the downturn of the early 1990s.⁴ (See the graph on page 5.)

One reason why many more workers are exhausting their federal benefits today is that TEUC is considerably more parsimonious than the earlier program. In particular, TEUC provides significantly fewer weeks of benefits: under the earlier program, each worker was eligible for at least 20 weeks of benefits some ten months after the federal program was enacted, while under TEUC, most workers are eligible for a maximum of 13 weeks of benefits.

Why Is Extending and Strengthening TEUC Good Economic Stimulus?

Since its inception in 1935, unemployment insurance has served two purposes. The first is providing income support to jobless workers and their families to help them absorb the shock of unemployment and the loss of their paycheck. The second is bolstering the economy as a whole by sustaining consumer demand during economic slumps. This part of the analysis discusses that second role.

The Bush Administration is expected to propose shortly a large set of proposals that it will describe as an economic stimulus or growth plan. This will be one of the central focuses for Congress in early 2003. Because the plan responds to a real need — the economy is currently shaky and the labor market is weak — the political momentum behind it will be strong. The

⁴ Increasing the number of workers exhausting federal benefits in the previous recession to reflect increases in the labor market between the 1990s and the current period, the number of workers exhausting temporary federal benefits under the current TEUC program is still greater than the number who exhausted such benefits in the same number of months in the 1990s. The number of exhaustions in the last recession have been increased in the graph to reflect increases in the number of workers between the early 1990s and the present time.

proposals, however, should be scrutinized carefully. There is a significant possibility that in the name of economic stimulus, an ill-designed package may be enacted.

In assessing new stimulus proposals, the questions to be asked include:

- Would their effects be felt quickly — that is, when the economy is likely to need a boost — and would they guarantee effective stimulus?
- Are they well targeted to those individuals and parts of the economy most in need of assistance?
- Would their costs be appropriately restricted to the short run?

Extending the TEUC program fully and strengthening it passes all of these tests with flying colors. It is likely to be more efficient than any other stimulus measure because it would target funds to people who would spend them quickly since these benefits go to jobless workers who have typically been out of work for more than 26 weeks and face pressing needs. In addition, TEUC benefits go to those who are bearing a large part of the burden of the slump (unemployed workers) and concentrate those funds in the areas of the country with the worst long-term unemployment. Finally, TEUC would continue only for a temporary period. As in the past, the program should be allowed to expire once employment growth has established itself in a decisive manner. Its costs would thus be restricted to the appropriate time frame.

A final point is worth noting here. In opposing a full extension of the TEUC program, House Republicans pointed to the \$4.8 billion cost of the Senate proposal, arguing that their \$1 billion proposal was more affordable. This argument overlooks both the greater stimulative effects of the Senate proposal and the fact that the unemployment insurance trust fund contains about \$24 billion, enough to pay for the Senate-passed bill five times over. Moreover, while strengthening TEUC by providing additional weeks of benefits to workers who have exhausted them would increase the cost of the Senate bill, the result still would pale in comparison to the “stimulus” tax cuts that many members of Congress and the Administration appear to support. “Stimulus” or “growth” proposals that cost \$100 to \$300 billion are now being discussed. Such proposals are both skewed towards the affluent and entail permanent rather than temporary costs.

What Should Be Done?

Policymakers should act promptly to institute a full resumption of the TEUC program. Since House Democrats and the full Senate already support such a resumption, support for such action by the President and House Republican leaders could pave the way for Congress to enact legislation expeditiously in January to provide TEUC benefits to the 1.2 million jobless workers who are expected to exhaust their regular unemployment benefits in the first three months of 2003. The roughly 780,000 workers whose benefits will be cut off prematurely December 28 should have those benefits restored on a retroactive basis, and states should take whatever action is necessary to minimize any gap in the receipt of unemployment checks.

At the same time, Congress should strengthen TEUC by providing more weeks of assistance under the program and should make these additional weeks available to workers who have used up their TEUC benefits but have been unable to find employment.

It is imperative that Congress move quickly. Each week of delay will result in more jobless workers going without either a paycheck or an unemployment check. For many of these workers, who typically have not received a paycheck for half a year or more and who have already likely depleted their financial resources, additional time without benefits or a paycheck can create new difficulties, from unpaid rent or mortgage payments to lack of adequate food.

Workers likely could have been spared the additional hardships caused by TEUC's expiration if the Administration had shown leadership on this issue and pushed House Republican leaders to consider extending the full TEUC program before adjourning last month. The Administration remained silent. Despite overtures from the Senate, whose bill to extend TEUC fully had passed unanimously, House Republican leaders declined to negotiate a compromise or to allow a House vote on the bipartisan Senate bill. As a result, Congress adjourned without extending TEUC.

President Bush broke his silence with his December 14 radio address, and Congress is expected to consider TEUC early in January. Still, the President's statement avoided any indication of where the White House stands on the issues that separate the Senate and the House Republican leadership, and this lack of agreement could delay the enactment of legislation when Congress convenes. Moreover, it remains unclear whether the President and House Republicans are now ready to extend TEUC in full and to strengthen it in order to provide adequate assistance to the nation's unemployed and more stimulus to the economy.

Table 1. Number of Workers Potentially Affected by Extension of TEUC Program in Each State

	Number of Workers Who Have Exhausted TEUC and Remain Unemployed as of the End of December	Number of Workers Receiving TEUC Who Will Be Cut Off on December 28	Number of Workers Who Will Exhaust Regular UI Benefits Each Week After December 28
Alabama	12,300	8,000	900
Alaska	3,700	2,600	600
Arizona	12,200	7,300	1,000
Arkansas	10,200	5,400	800
California	108,500	104,700	14,400
Colorado	17,000	11,200	1,500
Connecticut	15,400	11,800	1,100
Delaware	2,000	1,900	200
District of Columbia	3,700	2,100	300
Florida	58,500	31,300	4,100
Georgia	27,600	18,000	2,800
Hawaii	3,100	1,800	200
Idaho	3,200	2,900	500
Illinois	53,100	41,800	4,000
Indiana	20,600	11,100	1,900
Iowa	8,700	4,600	700
Kansas	7,200	5,800	700
Kentucky	10,700	9,100	700
Louisiana	10,500	7,100	900
Maine	2,900	1,800	200
Maryland	10,900	10,000	900
Massachusetts	30,600	26,900	2,900
Michigan	49,200	35,700	3,800
Minnesota	17,400	11,200	1,400
Mississippi	7,400	6,400	600
Missouri	15,600	12,500	1,600
Montana	2,800	1,200	200
Nebraska	3,200	2,600	500
Nevada	8,800	4,400	900
New Hampshire	1,200	1,500	100
New Jersey	47,800	39,000	4,400
New Mexico	2,400	2,200	400
New York	84,200	62,800	8,500
North Carolina	37,600	25,900	2,400
North Dakota	1,000	600	100
Ohio	43,500	26,300	2,300
Oklahoma	9,000	5,300	700
Oregon	13,300	22,000	1,600
Pennsylvania	44,000	46,500	4,100
Rhode Island	5,200	2,800	400
South Carolina	18,800	11,800	1,100
South Dakota	400	400	(fewer than 100)
Tennessee	27,400	14,900	1,700
Texas	56,800	45,900	11,600
Utah	8,900	1,200	600
Vermont	1,300	1,100	100
Virginia	14,700	10,700	1,400
Washington	31,500	39,700	2,400
West Virginia	3,300	3,100	300
Wisconsin	22,200	14,500	1,600
Wyoming	700	500	200
Total	1,012,200	780,000	96,300