



CENTER ON BUDGET AND POLICY PRIORITIES

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MORE THAN ONE MILLION OF THE UNEMPLOYED HAVE NOW BEEN DENIED AID DUE TO END OF FEDERAL PROGRAM Exhaustions Continue At Unprecedented Pace

By Isaac Shapiro

From late December, when the federal program designed to help the long-term unemployed began phasing out, through the end of March, an estimated 1.1 million jobless workers will have exhausted their regular unemployment benefits without receiving additional aid. In no other comparable period on record have so many individuals exhausted their regular benefits and gone without additional aid.

This estimate is based on previously released data from the Department of Labor for December and January, just-released department data for February, and a new estimate by the author for March.

This analysis begins with an assessment of current exhaustion trends, including on a state-by-state basis. It then discusses three of the arguments that have been put forward recently in opposition to resuming the temporary federal benefits program, before concluding by describing the political forces that will influence whether the program is reestablished.

Exhaustions Top One Million

The Temporary Extended Unemployment Compensation (TEUC) program was created in March 2002 to provide additional weeks of federally funded unemployment benefits to jobless workers who have run out of regular, state-funded unemployment benefits but have not found a job. TEUC provided up to 13 weeks of benefits to most workers who participated in it. After being extended twice, it began phasing out in late December. Individuals who have exhausted their regular unemployment benefits since December 20 have not been eligible for TEUC aid.

A month ago, the Center on Budget and Policy Priorities released a report estimating that 760,000 unemployed workers would exhaust their regular benefits and go without federal aid from December 20 through the end of February.¹ The Labor Department just released actual exhaustion data for February that permit a precise calculation of total exhaustions in late December through February. The actual figure was 781,000 — or three percent higher than the Center's estimate.

¹ Press Release, "760,000 Jobless Denied Aid — And Counting," Center on Budget and Policy Priorities, February 25, 2004.

Based in substantial part on the February data, this analysis estimates the number of unemployed who will exhaust their regular benefits in March, thereby creating a current estimate of how many unemployed have exhausted their regular benefits and gone without federal aid since the TEUC program was not resumed.

- From late December through the end of March, an estimated 1,150,000 unemployed individuals will exhaust their regular unemployment benefits. About 30,000 of them will qualify for additional unemployment aid through the permanent, but quite limited, federal/state “extended benefits” unemployment program.² The remaining 1,120,000 individuals will not qualify for additional aid.
- In no other comparable period on record, with data available back to 1971, have there been so many “exhaustees.”
- This figure will continue to mount as the weeks go by, with each new week bringing an average of nearly 80,000 more jobless workers exhausting their regular benefits but going without further aid.

Table 1 at the back of this analysis breaks out these figures on a state basis. It shows that throughout the nation large numbers of individuals are exhausting their regular benefits and going without aid.

These findings are part of a pattern of ongoing labor market weakness. A variety of studies have now concluded that job growth during this recovery period has been substantially weaker than in any other post-World War II recovery period. The Administration’s own economists have come to this conclusion. The recent *Economic Report of the President* stated “the performance of employment over the past couple of years has been appreciably weaker than in past business cycles” (see page 48 of this February 2004 publication).

The general labor market report for February was also discouraging. Jobs grew by a paltry amount of 21,000, with none of these jobs being created in the private sector. Further, the average duration of unemployment spells rose to their highest level in 20 years.

Findings of a new CBO study demonstrate importance of UI benefits

As a variety of studies over time have shown, unemployment insurance benefits play a critical income support role for the unemployed, and are often what prevents a middle class household from falling into poverty. A Congressional Budget Office study released in early March underscores this critical role. Based on the latest available data examining the relationship between long-term unemployment, unemployment insurance benefits, and family income, the study found that individuals who exhaust their regular UI benefits and are not able to find jobs are more than twice as likely to be poor and to lack health insurance as they were when they were employed. CBO stated:

² At the end of December four states qualified for the extended benefits program; now only Alaska does.

“...more than one-third of the former long-term UI recipients who had not returned to work had an income below the poverty line (measured on a monthly basis), and about 40 percent lacked health insurance — more than double the numbers before they became unemployed.”³

Current Arguments Against Resuming The TEUC Program

Nevertheless, legislation to restart the federal unemployment benefits program is languishing in Congress. Opponents of resuming the program have relied on three main arguments; none of these arguments stand up well to scrutiny.

Argument 1: The unemployment rate is low

One argument being made is that the current unemployment rate of 5.6 percent is on the low side, and indeed it is below its average level since 1970. The current unemployment rate, however, is not a very good indicator of whether or not the TEUC program is needed.

First, the low unemployment rate does not reflect a labor market in which jobs are plentiful. To the contrary, as discussed above, job growth has been extraordinarily slow in this recovery. There are still 2.4 million *fewer* jobs than when employment last peaked in February 2001.

Instead, the low unemployment rate reflects an unusually large drop in the number of people participating in the labor force, which is a sign of labor market *weakness*, not strength. The drop in labor force participation likely reflects a growth in the number of people who feel their job prospects are not positive. As the Economic Policy Institute has pointed out, if the same share of the population participated in the labor force in February 2004 as in March 2001 (when the downturn began), and holding the number of people employed in February constant, then the February unemployment rate would have equaled 7.4 percent, not 5.6 percent.⁴

Second, the best indicators of whether additional federal benefits are needed relate to the *long-term* unemployed. It is this group these benefits are designed to assist, reflecting the principle that during periods when it is taking longer to find a job, more weeks of benefits are needed. As this analysis finds, an unprecedented number of unemployed workers are running out of their regular benefits and not receiving additional aid, a key measure of long-term unemployment. Of further interest, each of the past three months close to 1.9 million unemployed individuals have been counted among those who have been out of work for more than half a year (the official definition of “long-term unemployment”), a high level that is nearly three times what it was when the downturn began.

³ Congressional Budget Office, *Family Income of Unemployment Insurance Recipients*, March 2004.

⁴ Economic Policy Institute, *Job Watch*, March 2004. The EPI report found that through February there had been a 1.2 percentage point drop in labor force participation compared with participation at the start of the downturn, which is a striking anomaly; at the same point in the previous three business cycles, labor force participation was an average of 0.4 percentage points higher than at the start of the downturn.

Argument 2. Providing TEUC benefits will lengthen unemployment spells

A second argument being used against resuming the TEUC program is that these benefits should not be provided because their availability will lead the unemployed to search less hard for a job, unnecessarily prolonging unemployment spells.

This argument should hold little water given the current weak state of the labor market, and how difficult it is to find a job, no matter how hard one searches. In coming out in support of resuming temporary federal benefits, Federal Reserve Chair Alan Greenspan recently put it this way in Congressional testimony. He noted the concern that UI benefits not be so long that they discourage job searches, but said this concern does not currently apply. He observed:

"The crucial issue here is that we do not wish to encourage people who can find a job not to do so, therefore we have limited the amount of unemployment insurance."

"However, when unemployment is created through no fault of workers' actions, then it is clearly to our advantage to find ways of creating support in our system. And as a consequence, in times like this I have supported the issue of extension of unemployment insurance."⁵

The new Congressional Budget Office study casts further doubt on the notion that the provision of TEUC benefits would have a major effect on the length of unemployment spells. It found that the length of unemployment spells has also risen recently for those *not* receiving UI benefits.⁶

With the phase-out of the TEUC program at the end of December, there has also been a test — albeit a short one — of the proposition that the existence of these benefits significantly lengthened unemployment spells. If the TEUC program had been the main reason for the long duration of unemployment spells, one would have expected that the length of unemployment spells would have fallen since the end of December. To the contrary, not only, as mentioned, is the number of long-term unemployed exceptionally high, the average duration of unemployment spells increased in February to its longest level in 20 years (since January 1984).

Argument 3. States could use their “Reed Act” funds

A final argument being used against reviving the TEUC program is that states could fund additional benefits using the money federal legislation transferred into their unemployment trust funds in March 2002. Of the \$8 billion that was then transferred to states (under a mechanism known as the Reed Act), according to the Labor Department \$4.2 billion (some have been

⁵ Joseph Rebello of Dow Jones Newswires, “Greenspan: ‘Not a Bad Idea’ to Extend Jobless Benefits,” *The Wall Street Journal Online*, March 11, 2004.

⁶ *Op.cit.*, page 15.

mistakenly using a higher figure)⁷ remained in state accounts at the end of February, with this figure expected to drop to \$3.7 billion or less by the end of March.⁸

The use of Reed Act funds as a substitute for resuming the TEUC program is neither a viable nor a desirable alternative. Using Reed Act funds in that way would:

- **Violate federal law.** The purpose of the Reed Act distribution was largely to shore up and improve regular, state unemployment benefit programs. Indeed, the March 2002 law explicitly forbids Reed Act funds from being used in lieu of TEUC benefits;
- **Cover only a modest fraction of exhaustees.** Some might suggest that the Reed Act funds could be used to free up other state funds that could be devoted to extending benefits. But nearly three of every four individuals expected to exhaust their regular unemployment benefits during the first half of 2004 live in states where this is not possible. Their states have either already used up all their Reed Act funds or have levels of Reed Act funds that are insufficient to fully substitute for a resumption of the TEUC program;
- **Lead to tax increases.** Due to provisions in state laws governing the solvency of their unemployment insurance systems, the use of Reed Act funds for this purpose would automatically trigger tax increases on employers in a large number of states; and
- **Be unnecessary given the size of federal trust funds.** The traditional source of funding for additional unemployment benefits — the federal unemployment insurance trust fund — has far more than adequate resources to extend and strengthen the TEUC program, and four times as much in reserve as remains in Reed Act funds.

How Are The Political Forces Aligned?

In both the House of Representatives and the Senate, recent votes have indicated that a majority of members support resuming the TEUC program. A House measure to authorize additional unemployment insurance benefits was adopted by a vote of 227 to 179, with 39 Republican representatives joining all Democrats in voting in favor. The vote on a similar Senate measure was 58 in favor, including a dozen Republican Senators, and 39 against (three members were absent); 60 votes, however, were required to pass the measure.

⁷ For example in a March 12, 2004 story in *The Washington Post*, Representative John A. Boehner, chairman of the House Committee on Education and the Workforce, said that \$5.4 billion in Reed Act funds were still available. “Stocks Plummet After Attacks: Greenspan Backs an Extension of Jobless Benefits,” Nell Henderson, page E1.

⁸ This analysis of the Reed Act argument is drawn from “State ‘Reed Act’ Funds are not a Viable or Desirable Substitute for Federal Unemployment Benefits,” Center on Budget and Policy Priorities, revised March 15, 2004.

Despite this broad support, Congressional enactment is not assured. The Republican leadership in both the House and Senate have so far opposed resuming the program and continue to throw up legislative roadblocks. The Bush Administration has refused to take a public position on the issue.

If the Congressional leadership were to change its position, or if the Administration were to come out in support of resuming the program, it is quite likely the program would be quickly restored. The mounting and unprecedented number of individuals exhausting their regular benefits and going without federal aid suggest this would be a desirable outcome. With the number of exhaustees already topping one million, and growing larger each day, the TEUC program should be resumed.

Table 1. Estimated Exhaustions From Late December 2003 Through The End Of March 2004

State	Number of unemployed exhausting their regular benefits	Number then qualifying for federal/state "extended benefits"	Number of regular program exhaustees not qualifying for additional federal aid
Alabama	10,800	0	10,800
Alaska	6,400	6,400	0
Arizona	13,500	0	13,500
Arkansas	11,300	0	11,300
California	176,700	0	176,700
Colorado	16,300	0	16,300
Connecticut	15,800	0	15,800
Delaware	2,600	0	2,600
District of Columbia	4,100	0	4,100
Florida	41,900	0	41,900
Georgia	33,700	0	33,700
Hawaii	2,400	0	2,400
Idaho	6,500	0	6,500
Illinois	52,800	0	52,800
Indiana	26,900	0	26,900
Iowa	8,300	0	8,300
Kansas	10,300	0	10,300
Kentucky	10,000	0	10,000
Louisiana	12,400	0	12,400
Maine	3,800	0	3,800
Maryland	12,600	0	12,600
Massachusetts	29,100	0	29,100
Michigan	48,500	12,700	35,800
Minnesota	18,700	0	18,700
Mississippi	6,900	0	6,900
Missouri	21,700	0	21,700
Montana	3,400	0	3,400
Nebraska	5,900	0	5,900
Nevada	8,700	0	8,700
New Hampshire	1,700	0	1,700
New Jersey	54,600	0	54,600
New Mexico	4,300	0	4,300
New York	103,300	0	103,300
North Carolina	37,600	0	37,600
North Dakota	2,200	0	2,200
Ohio	31,300	0	31,300
Oklahoma	9,300	0	9,300
Oregon	21,200	4,300	16,900
Pennsylvania	50,400	0	50,400
Puerto Rico	15,600	0	15,600
Rhode Island	5,000	0	5,000
South Carolina	16,100	0	16,100
South Dakota	600	0	600
Tennessee	20,000	0	20,000
Texas	72,000	0	72,000
Utah	6,800	0	6,800
Vermont	2,600	0	2,600
Virgin Islands	400	0	400
Virginia	16,000	0	16,000
Washington	26,200	4,700	21,500
West Virginia	3,800	0	3,800
Wisconsin	25,700	0	25,700
Wyoming	1,300	0	1,300
Total	1,150,000	28,100	1,121,900

Source: U.S. Department of Labor. Extended benefits were in place in Michigan, Oregon, and Washington through part of January, and in Alaska for the entire period.