



# CENTER ON BUDGET AND POLICY PRIORITIES

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## **NEARLY FOUR MILLION OF THE LONG-TERM UNEMPLOYED WILL BE DIRECTLY AFFECTED BY UPCOMING LEGISLATIVE DECISIONS**

By Isaac Shapiro and Jessica Goldberg

Unless new federal legislation is enacted, the Temporary Extended Unemployment Compensation (TEUC) Program — the program created in March 2002 that provides federally-funded unemployment benefits to workers who have exhausted their regular, state-funded benefits — will begin to phase down sharply at the end of May. Unemployed workers who are already receiving TEUC benefits at that point will be able to receive up to 13 weeks of benefits. But any unemployed workers who exhaust their regular benefits after that date will not be eligible for additional federal aid. This analysis examines the number of long-term unemployed who could be affected by extending and strengthening the TEUC program, reviews several key indicators of labor market weakness, and assesses whether extending and strengthening the TEUC program is affordable and sound economic growth policy.

In the first week of April, legislation was introduced in the House and Senate to extend the TEUC program for six more months, as well as to strengthen the program.<sup>1</sup> We estimate that 3.9 million of the long-term unemployed would be assisted by this legislation, including:

- **An estimated 2.1 million workers who will exhaust their regular unemployment benefits from June through November.** If the TEUC program expires at the end of May, it will terminate at a time when exceptionally large numbers of unemployed workers are exhausting their regular, state-funded unemployment benefits before they find a job. Current data and trends suggest that approximately 2.1 million workers will exhaust their regular unemployment benefits without finding work in the six months following May.
- **An estimated 1.1 million workers whose TEUC benefits have run out and who remain unemployed.** From the start of the TEUC program last March through the end of this May, an estimated 3.1 million workers will have exhausted their TEUC benefits before finding work. Based upon recent employment patterns and assumptions made by the Congressional Budget Office about the rate at which unemployed workers find new jobs, our estimate is that about 1.1 million

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<sup>1</sup> The TEUC legislation was proposed in the House by Reps. Rangel (D-NY), Cardin (D-MD), and others (H.R. 1652), and in the Senate by Senators Kennedy (D-MA), Smith (R-OR), and others (S. 923). Among other provisions, both bills would keep the TEUC program in place for another six months and would also provide a minimum of 26 weeks of TEUC benefits in all states. Legislation introduced earlier this year -- including H.R. 162, introduced by Rep. Quinn (R-NY) and others, and H.R. 682, introduced by Rep. English (R-PA) and others -- would also strengthen the TEUC program, by increasing the number of weeks of benefits available to jobless workers.

**Table 1**  
**Workers Benefiting from Proposed TEUC Legislation**

Workers who will exhaust regular unemployment benefits between June and November 2003	Workers who will exhaust TEUC by the end of May and still be unemployed at that time	Workers who will exhaust TEUC benefits in June, July, and August	Estimated number of total workers affected
2,101,000	1,104,000	682,000	3.9 million

of these exhaustees will still be unemployed as of the end of May. (Indeed, because the unemployed have been having greater difficulty finding work than CBO assumed when developing its methodology, the number of workers who will have exhausted all available federal benefits and will still be unemployed as of the end of May might be as high as 1.4 million.) These jobless workers and their families would be aided if, as the new legislation proposes to do, the TEUC program were strengthened through the addition of further weeks of benefits for workers who have exhausted their TEUC benefits but been unable to find work.

- **Another 680,000 workers who will be receiving TEUC benefits at the end of May.** We estimate that 800,000 workers will be receiving TEUC benefits as of May 31. Under current law, through the end of August these workers will continue to receive their TEUC benefits until they have received up to 13 weeks of benefits or find a job. Those workers who exhaust their TEUC benefits in June, July, and August before securing employment would be assisted if more weeks of TEUC benefits were provided, as the new legislation would do. Nearly 700,000 workers would benefit.

A table at the end of this analysis provides estimates on a state-by-state basis of the number of workers who would be helped by the proposed legislation. In 13 states — California, Florida, Georgia, Illinois, Massachusetts, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas, and Washington — more than 100,000 workers per state would be affected.

### **Why Would So Many Workers be Affected?**

In part, the large number of workers who would benefit from the new legislation reflects the weak labor market:

- Some 365,000 workers exhausted their regular unemployment benefits in March (the latest month for which these data are available). The number of “exhaustees” increased for 24 straight months, from March 2001 through February 2003, when compared to the number of exhaustees in the same month of the previous year. The March 2003 figure was virtually the same as the March 2002 figure.

- Adding to this concern, the percentage of workers beginning to receive regular unemployment benefits who subsequently exhaust those benefits without finding work was at the highest level ever recorded in February and at the second highest level ever recorded in March. (These data go back to 1973.) This measure, known as the “exhaustion rate,” is a prime indicator of how difficult it is for unemployment insurance recipients to find new jobs.
- The Labor Department reported that new applications for unemployment insurance numbered 442,000 in the week ending April 26 and have now remained above 400,000, a level associated with a stagnant job market, for eleven consecutive weeks. Similarly, the more stable four-week “moving average” of new applications for UI rose in the week ending April 26 to its highest level in more than a year.
- The general labor market data for April contain grim news about job creation. More than half a million jobs have been lost since January, with the overall number of jobs in the economy dipping to a 41-month low. There are now fewer jobs in the labor market than at any other point in the current slow down.

But the weak labor market is only part of the story. The 3.1 million workers expected to exhaust their TEUC benefits by the end of May is substantially larger than the 1.9 million unemployed workers who exhausted their temporary federal benefits in a comparable period of the downturn of the early 1990s. Much of this gap reflects differences between the design of the current TEUC program and the design of the temporary federal program in place in the early 1990s.<sup>2</sup> Today’s TEUC program provides many fewer weeks of unemployment benefits than did the temporary federal program of that earlier period, even though by several labor market indicators this slowdown has been more severe. The federal program established in the early 1990s initially provided 26 weeks of additional benefits to workers whose regular unemployment benefits had run out in 34 states, and 33 weeks of additional benefits in the other 16 states. After the program had been operating for about eight months, the number of additional weeks provided was reduced to 20 weeks in the majority of states and 26 weeks in the high-unemployment states.

In other words, for the first 22 months the program operated, the *minimum* number of additional weeks of federal benefits provided in any state was 20 weeks. This compares to 13 weeks today. A worker is more apt to exhaust his or her unemployment benefits before finding work when these benefits are provided for a significantly shorter period of time, as is currently the case.

Further, few states today are qualifying to provide a second, longer tier of federal unemployment benefits. Under the statute governing TEUC, just six states are currently

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<sup>2</sup> There also are more workers in the labor force today than there were a decade ago, so the increased number of exhaustees today partly reflects growth in the labor force. But even after adjusting for the growth in the labor force, significantly more workers have exhausted their temporary federal unemployment benefits in this downturn than in the last one.

classified as “high unemployment” states, which permits workers in these states to receive up to 26 weeks of TEUC benefits, rather than up to 13 weeks of these benefits. The small number of such states is largely the result of a serious deficiency in the mechanism that the TEUC program uses to determine which states qualify as having high unemployment: the mechanism fails to count the long-term unemployed. A better-designed mechanism was used in the previous recession to measure which states qualify as having “high unemployment;” it enabled more states to provide a more adequate number of weeks of federal unemployment benefits during that downturn.<sup>3</sup>

### **Is Extending and Strengthening the TEUC Program Affordable and Sound “Growth” Policy?**

In light of the sharp deterioration in the nation’s fiscal condition, any proposal to increase spending or reduce taxes should be scrutinized especially carefully. In assessing whether to devote additional funds to the TEUC program, it first should be noted that funds already have been set aside for this purpose. The federal unemployment insurance trust funds currently have a surplus of more than \$21 billion. To extend and strengthen TEUC, unemployment insurance taxes thus do not need to be raised. If TEUC is allowed to expire, these trust fund surpluses will sit unused while several million jobless workers go without benefits, even though one of the main purposes of the trust funds is supposed to be to finance additional federal unemployment assistance during economic slumps.

Further, the budget resolution agreed to by Congress on April 11 includes at least \$350 billion for a “growth package” that will be allowed to be voted on through expedited procedures. Extending and strengthening the TEUC program could be made part of the package. From its inception in 1935, unemployment insurance has been considered one of the best sources of economic stimulus. Its benefits increase consumer spending in the hardest-hit areas and among the hardest-hit workers. Unemployment benefits go to workers who are likely to spend them quickly, as many of these workers are facing economic hardship and need additional income to meet immediate household needs.

Indeed, a recent study by Economy.com, an independent financial research group, found that the single most effective stimulus measure would be further extension of emergency federal unemployment insurance benefits. The same study found that the principal tax cuts proposed by the Administration in its “economic growth” package would be inefficient as a means of stimulating the economy in the near term.<sup>4</sup> For instance, while the study found that each dollar dedicated to extending the TEUC program would boost the economy by \$1.73, it found that each

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<sup>3</sup> For an explanation of the problems with the design of the “high unemployment” trigger in the TEUC program, see Wendell Primus and Jessica Goldberg, “Number of Workers Exhausting Federal Unemployment Insurance Benefits Will Reach an Estimated 1.5 Million by the End of September and Exceed Levels in the Last Recession,” Center on Budget and Policy Priorities, September 2002.

<sup>4</sup> Andrew Lee and Joel Friedman, “Report finds most Administration ‘growth’ proposals would be ineffective stimulus,” Center on Budget and Policy Priorities, April 8, 2003.

dollar connected to reducing the taxation of dividends would boost the economy by just nine cents.<sup>5</sup>

### **Who Will Congress and the President Choose to Help?**

Between now and the end of May, Congress and the President will be faced with several critical domestic policy choices, with virtually all attention to date focused on what type of tax cuts might be enacted by Memorial Day. Another set of critical decisions, however, will need to be made concerning the TEUC program. Will it be extended? If so, for how long and will it be strengthened? The decisions will directly affect those individuals — estimated here as 3.9 million workers — and their families who have borne much of the brunt of ongoing economic weakness.

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<sup>5</sup> An earlier study commissioned by the Department of Labor found an even larger “bang for the buck” from unemployment insurance benefits. That study found that each dollar of unemployment benefits likely increases gross domestic product by \$2.15. See Lawrence Chimerine, Theodore Black, and Lester Coffey, “Unemployment Insurance as an Automatic Stabilizer: Evidence of Effectiveness over Three Decades,” Unemployment Insurance Occasional Paper 99-8, U.S. Department of Labor, July 1999.

**Table 2. Number of Workers Affected by Proposed UI Legislation**

	Number of Workers Who Are Projected to Exhaust Regular State UI Benefits, June-Nov 2003	Estimated Number of Workers Who Will Have Exhausted TEUC Benefits and Still Be Unemployed, End of May 2003	Projected Number of Workers Who Will Exhaust TEUC Benefits, June-August 2003	Total
Alabama	23,400	14,600	5,800	43,800
Alaska	9,200	4,800	3,500	17,500
Arizona	26,700	13,600	4,400	44,700
Arkansas	20,900	7,300	5,100	33,300
California	339,900	150,400	72,600	562,900
Colorado	31,200	15,900	9,200	56,300
Connecticut	32,100	11,900	14,500	58,500
Delaware	5,400	2,500	1,400	9,300
DC	6,600	2,100	1,000	9,700
Florida	81,700	58,200	22,000	161,900
Georgia	58,400	28,200	14,200	100,800
Hawaii	4,500	2,400	1,200	8,100
Idaho	8,600	4,700	2,800	16,100
Illinois	102,100	53,100	31,800	187,000
Indiana	39,200	18,200	13,600	71,000
Iowa	14,500	9,800	4,800	29,100
Kansas	17,800	7,800	4,500	30,100
Kentucky	21,400	10,300	6,800	38,500
Louisiana	17,100	10,400	5,500	33,000
Maine	5,800	2,700	2,100	10,600
Maryland	26,700	11,800	6,200	44,700
Massachusetts	65,100	32,700	42,900	140,700
Michigan	81,900	53,600	18,700	154,200
Minnesota	31,200	17,500	10,000	58,700
Mississippi	14,400	9,700	4,400	28,500
Missouri	38,200	19,700	9,500	67,400
Montana	3,800	2,900	1,300	8,000
Nebraska	10,200	4,200	2,500	16,900
Nevada	15,200	6,500	4,600	26,300
New Hampshire	4,300	1,900	1,100	7,300
New Jersey	106,500	51,000	32,800	190,300
New Mexico	7,300	4,800	1,200	13,300
New York	180,500	103,100	48,700	332,300
North Carolina	66,900	34,400	26,800	128,100
North Dakota	1,800	1,200	1,600	4,600
Ohio	64,700	36,500	15,500	116,700
Oklahoma	15,000	7,200	4,700	26,900
Oregon	37,300	17,200	22,900	77,400
Pennsylvania	105,800	77,900	74,800	258,500
Rhode Island	8,700	4,700	2,400	15,800
South Carolina	28,500	15,800	8,400	52,700
South Dakota	900	600	300	1,800
Tennessee	31,100	25,100	12,900	69,100
Texas	133,000	69,200	39,900	242,100
Utah	12,000	6,600	4,600	23,200
Vermont	3,400	2,200	700	6,300
Virginia	36,000	16,800	9,700	62,500
Washington	51,200	20,400	30,400	102,000
West Virginia	7,800	3,900	1,900	13,600
Wisconsin	42,600	14,400	12,100	69,100
Wyoming	2,000	1,300	1,300	4,600
<b>Total</b>	<b>2,100,700</b>	<b>1,103,900</b>	<b>681,500</b>	<b>3,886,100</b>