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YES, FEDERAL UNEMPLOYMENT BENEFITS SHOULD BE TEMPORARY BUT NO, THE PROGRAM SHOULDN'T BE ENDED YET

by Isaac Shapiro and Jessica Goldberg

House Republican leaders have been balking at supporting an extension of the Temporary Extended Unemployment Compensation (TEUC) program, sometimes noting how the program was supposed to be temporary in nature.¹ Indeed, all agree that the TEUC program should be temporary. (In contrast, certain key supporters of the "temporary" tax cuts Congress is now considering freely admit that they intend to extend these tax cuts indefinitely.) But the end of May is not the time for the TEUC program to begin its scheduled sharp phase-out.

- **Millions of individuals still require assistance from the program.** Starting June 1, workers who exhaust their regular, state benefits will not be eligible for additional federal benefits (except for the small number who live in the three states where the permanent federal/state extended benefits program has been activated). On average, 350,000 workers are exhausting their regular benefits each month. Over the next six months, two million workers will exhaust their regular benefits and, unless TEUC is extended, will go without either a paycheck or an unemployment check. Another 1.8 million workers would benefit from strengthening the program — by providing additional weeks of benefits to those who have or will exhaust them — such that it would more closely mirror the temporary program from the early 1990s.
- **Labor market conditions are weaker now than when the TEUC program was first enacted in March 2002 and when it was extended in January 2003.** There are fewer jobs in the economy than there have been at any time in the past 41 months. Long-term unemployment is as high as it has been in 10 years. One key measure — the number of workers exhausting their regular state unemployment benefits — is now at the second highest level ever recorded, after setting a record one month earlier.
- **In the past, comparable programs did not end until labor market conditions had improved significantly and for a sustained period; such a turnaround is not yet evident.** In the early 1990s, the temporary federal benefits program then in place did not end until the number of

¹ See, for example, remarks made by House Ways and Means Committee Chairman Bill Thomas in *Congress Daily*, May 15, 2003.

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, and the newest data, from March 2003, show that the number of workers who need additional weeks of unemployment benefits is still little changed relative to last year.

Similarly, in the early 1990s the temporary federal benefits program did not end until job growth had picked up considerably. This contrasts with the fall in employment over the past few months.

- **Extending and strengthening unemployment benefits is more effective short-term stimulus than the other options under consideration, and is dramatically more effective stimulus than cutting taxes on dividends.** As the President has been consistently saying in his speeches, what the economy needs is increased consumer demand. Yet from its inception in 1935 – when the program was established in part to sustain demand during the depression – the unemployment insurance program has served that purpose. Unemployment insurance boosts such demand rapidly because unemployed workers have little choice but to spend these benefits immediately.

It is thus not surprising that Economy.com found that unemployment insurance was the single best mechanism to boost the economy that was under discussion. It found that extending federal benefits would give the economy a \$1.73 jolt for each \$1 of benefits. This is nearly 20 times the expected “bang for the buck” received from cutting dividend taxes; in part, the difference reflects the degree to which cutting taxes on dividends will disproportionately benefit high-income households, who are unlikely to spend their tax cuts immediately. The contrast is particularly striking since the President and nearly all members of the majority party in Congress are supporting reductions in dividend taxes that dwarf the costs of extending and strengthening the TEUC program.

Paychecks vs. Unemployment Checks

Administration officials, in particular, have responded to questions about whether the TEUC program should be extended by suggesting their goal is to make sure everyone has a job, and that paychecks are preferable to unemployment checks. The latter preference is unassailable, but currently it is impractical. Not enough jobs are available. Moreover, even accepting for the moment the Administration’s claim that its \$726 billion tax cut proposal would have created 500,000 jobs by the end of the year, with 8.8 million workers now unemployed, unemployment would remain high through 2003. In the neighborhood of four million unemployed individuals would still need the assistance that would be provided by extending and strengthening the TEUC program.

Further, it is inconsistent to argue that a vast amount of tax cuts are needed to create jobs to help the unemployed when one is unwilling to commit a modest amount of resources to assist the large number of people who — even if job growth occurs — will be without both an unemployment check and a paycheck. This inconsistency is especially glaring since TEUC benefits would provide more stimulus to the economy than the tax cuts under consideration.

Finally, House Republican leaders have also expressed concern about unemployment checks encouraging workers to remain unemployed.² (As discussed in the text box on the next page they have also pointed to “Reed Act” funds as an alternative approach to the TEUC program) The leadership 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.³

The remainder of this analysis elaborates on some of the above points.

“Reed Act” Funds are no Substitute for the TEUC Program

In recent days, House Republican leaders have raised a new argument against continuing the TEUC program. They have pointed out that \$6 billion of the \$8 billion that was transferred to states in March 2002 (under a mechanism known as the Reed Act) remains in state accounts, implying that states can use these funds to provide additional weeks of unemployment benefits to those who have exhausted their regular benefits.

A separate CBPP analysis (“State Reed Act Funds Are No Substitute for the Temporary Federal Unemployment Benefits Program”) of this argument finds:

- the Reed Act funds are insufficient to replace TEUC benefits for the large majority of those expected to exhaust their regular benefits over the next six months;
- that use of Reed Act funds for this purpose would automatically lead to tax increases in a large number of states and would prevent these funds from being used for the purpose of shoring up state benefit programs; and
- that the traditional source of funding for additional unemployment benefits — the federal unemployment insurance trust fund — has more than adequate resources to extend and strengthen the TEUC program, and more than three times as much in reserve as remains in Reed Act funds.

² “He [House Majority Leader DeLay] said Republicans want to give aid to workers, but ‘not encourage them to stay unemployed,’” *Congress Daily*, May 20, 2003.

³ 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.”

Table 1
Workers Benefiting from Possible 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

Nearly Four Million Workers Will Need Additional Assistance in the Next Six Months

Weak labor markets and persistent long term unemployment indicate that the need for additional weeks of unemployment benefits provided by the TEUC program will remain high in the six months after the program's scheduled expiration. As Table 1 indicates, three groups could benefit from TEUC legislation.

- **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.
- **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 of these exhaustees will still be unemployed as of the end of May.⁴ These jobless workers and their families would be aided if 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. This step would also make the program more similar to the temporary federal benefits program in place in the early 1990s.
- **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

⁴ 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.

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. Nearly 700,000 workers would benefit.

Table 3 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.

Labor Market Indicators are Now Worse than when TEUC was Created, Extended

As table 2 depicts, six key indicators of the labor market are worse now than when the TEUC program was first enacted in March 2002, and when it was extended in January 2003. The unemployment rate and the number of unemployed are both higher than in both earlier periods. Further, last month the number of payroll jobs fell for the third straight month, hitting its lowest level since November 1999. Not only has employment fallen since the TEUC program was enacted and when it was strengthened, it is now 2.1 million below its level when the downturn began.

	Latest Data	Situation when TEUC was Extended	Situation when TEUC was Enacted
Unemployment rate	6.0%	5.7%	5.7%
Unemployment level	8.79 million	8.30 million	8.22 million
Number of jobs	130.35 million	130.87 million	130.70 million
Long-term unemployed	1.90 million	1.68 million	1.32 million
Workers who exhausted regular UI benefits in previous 12 months	4.38 million	4.36 million	3.22 million
Exhaustion rate, average over previous 12 months	42.9%	42.7%	36.9%

Note: Latest data for unemployment rate, level, number of jobs, and long term unemployed are from April 2003. Latest data for exhaustion level and rate go through March 2003.

Indicators of long-term unemployment also are troubling. Since the TEUC program is designed to assist those experiencing long spells of unemployment, these indicators are particularly relevant in assessing whether it is time for the program to end.

- *Number of long-term unemployed.* One way to measure those in need of assistance is to look at the number of the unemployed who have been out

of work for more than 26 weeks; this is the traditional measure of long-term unemployment. In April, long-term unemployment increased to 1.9 million people. This is up by 220,000 from when the TEUC program was extended and by more than a half-million people — 44 percent — from when the program was enacted.

- *Number exhausting regular benefits.* The need for the TEUC program can also be measured more directly, by examining the number of workers who are exhausting their regular, state benefits before they find job (this is the pool of workers who may then receive TEUC benefits). We examine 12 months of data for this program as the monthly data are not “seasonally adjusted” (that is, they are not adjusted to account for fluctuations due to seasonal labor market patterns). Over the past year, 4.38 million workers had their regular benefits run out before they were able to find work, up in this case only very slightly from the number of workers exhausting their regular benefits in the 12 months ending in January 2003 but substantially higher than the number of exhaustees in the 12 months ending in March 2002.

Of further interest, 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.

- *Exhaustion rate.* The percentage of workers beginning to receive regular unemployment benefits who subsequently exhaust those benefits without finding work is exceptionally high, with the current level slightly higher than in January and much higher than when the TEUC program was enacted. This exhaustion rate 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 is a prime indicator of how difficult it is for unemployment insurance recipients to find new jobs.

End of TEUC Program is Premature by Historical Standards

The temporary federal benefits program in place in the early 1990s allowed workers to enter the program for 27 months — a full year longer than the TEUC program will have lasted when it begins cutting off new recipients on June 1. The earlier program lasted longer even though the labor market remained weak for a shorter period of time in the early 1990s than it has today. Two years after the start of the recession in the early 1990s, job growth had begun to pick up markedly. As noted, two years into this period of labor market weakness the number of jobs has continued to fall.

The need for a temporary federal benefits program is best measured by the number of workers who are exhausting their six months of regular, state-funded

unemployment benefits. The program in the early 1990s lasted until need was abating significantly and for an extended period. The number of workers exhausting regular state benefits fell (relative to the same month in the previous year) for 19 consecutive months before that program ended. Similarly, in the early 1980s, the number of workers exhausting regular state benefits fell in 23 of the 24 months before the temporary federal benefits program then in place was allowed to expire.

In contrast, the most recent data show that the number of workers who exhausted regular unemployment benefits in March 2003 was about the same as the number who exhausted such benefits in March 2002. The month of stagnation follows 24 consecutive months of increases in exhaustions of regular state benefits.

Table 3. Number of Workers Affected by Possible 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
Total	2,100,700	1,103,900	681,500	3,886,100