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**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**

Immediate Relief Would Assist Workers and Aid the Economy

By Wendell Primus and Jessica Goldberg

Summary

The persistence of high unemployment rates and the uncertainty surrounding the nature of the economic recovery have begun to generate discussion about possible steps to assist unemployed workers and strengthen the economy. Prompt federal action on the unemployment insurance (UI) front would advance both objectives. Currently, large numbers of workers are running out of unemployment benefits before they are able to find new jobs.

- Between May and July 2002, approximately 900,000 workers exhausted all of the additional weeks of federal unemployment benefits that they received as a result of the economic stimulus legislation enacted in March. Several hundred thousand more workers will exhaust these unemployment benefits without finding work in August and September. By the end of September, an estimated 1.5 million workers will have exhausted their federal unemployment insurance benefits.
- More individuals are exhausting their federal unemployment benefits before finding work now than in the last recession, which took place in the early 1990s. By the end of 2002, an estimated 2.2 million unemployed workers will have exhausted all of their additional weeks of federal unemployment benefits. Over a comparable time period during the last recession, 1.4 million workers exhausted their additional weeks of temporary federal benefits.¹ This reflects the fact that the current federal program provides fewer weeks of additional benefits than the comparable federal program established in the last recession did; as a result, benefits are more likely to run out before workers can find new jobs.
- When the current federal program — known as The Temporary Emergency Unemployment Compensation (TEUC) program — was enacted in March, 10 states with high levels of unemployment initially qualified to provide up to 26 weeks of additional federal benefits. In the remaining states, up to 13 weeks of additional benefits were provided. Shortly thereafter, two additional states

¹ U.S. House of Representatives Committee on Ways and Means, *The 1994 Green Book* and the U.S. Department of Labor, Bureau of Labor Statistics.

qualified to provide up to 26 weeks of additional federal benefits, bringing to 12 the number of states providing benefits for that duration.

Today, however, only *two* states are permitted to provide more than 13 weeks of additional benefits — one-sixth the number that were providing more than 13 weeks of additional benefits in April and May 2002. Yet the unemployment situation nationally — and in most of the states that no longer qualify to provide 26 weeks of additional benefits — has *not* improved significantly since then. These states are now limited to 13 weeks of additional benefits largely because of a flawed formula for determining when a state qualifies as a “high-unemployment” state, rather than because of improvement in employment conditions in these states.

- Among the states that no longer qualify to provide 26 weeks of additional benefits, rather than 13 weeks, are California, with a 6.4 percent unemployment rate, and Michigan, with a 6.5 percent unemployment rate.²

This suggests the TEUC program needs to be strengthened. Congressional Budget Office projections issued in late August underscore the need for action; CBO projects the unemployment rate will remain at about six percent *until the second half of 2003*. Congress should consider extending the TEUC program until that time (the program is currently scheduled to expire at the end of 2002) and improving the benefits it provides.

In addition to providing well-targeted relief to unemployed workers, improvements in the TEUC program would be beneficial for the economy. Unemployment insurance provides well-targeted economic stimulus; its benefits increase consumer spending in the hardest-hit areas and among the hardest-hit workers. UI 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 household needs. Boosting consumer spending is widely viewed as one of the most effective ways to sustain and strengthen an economic recovery.

Even so, any proposal to increase spending or cut taxes should be weighed carefully in light of the sharp deterioration in the long-term budget outlook. Strengthening the TEUC program would be a wise use of scarce federal dollars, both because it is well-designed as worker relief and economic stimulus and because the program would be strictly temporary in nature. While such action would increase spending in the short term, it would have no effect on the long-term fiscal outlook.

Finally, the federal unemployment insurance trust funds contain large reserves that are more than ample to support the strengthening of TEUC; no additional unemployment insurance taxes would be needed. The UI trust funds built up large resources when times were good.

² Three-month seasonally adjusted Total Unemployment Rates from the TEUC trigger notice for the week of September 15, 2002.

These resources were accumulated for the express purpose of being able to meet the needs of jobless workers when the economy weakened and unemployment climbed.³

Many Workers Are Exhausting Federal Unemployment Insurance Benefits

Earlier this year, economic stimulus legislation was enacted that established a Temporary Emergency Unemployment Compensation (TEUC) program under which workers who have exhausted their regular, state-financed unemployment insurance benefits, which typically are provided for up to 26 weeks, may receive additional weeks of federally-financed unemployment benefits. Under the TEUC program, workers in most states can receive up to 13 weeks of additional federally-funded benefits. Workers in states with high unemployment can receive up to 26 weeks of additional, federally-funded benefits.

During the first five months of the program, from March to July 2002, some 2.8 million workers received assistance from the TEUC program. According to Labor Department data, approximately 900,000 of these workers exhausted their benefits in May, June, and July without finding work. (Some of these workers have found jobs since then, but given the weakness of the labor market, it is likely that many of these exhaustees still lack jobs.)

In August and September of this year, another 600,000 workers (about 300,000 per month) are projected to exhaust their TEUC benefits, raising the total number of exhaustees to 1.5 million workers. By the end of 2002, a projected 2.2 million workers will have exhausted their TEUC benefits before securing employment.⁴

The attached table shows the number of workers who had exhausted their TEUC benefits in each state by the end of July. New York had the largest number of such workers (111,000),

³ Although employers officially pay unemployment insurance taxes, most economists agree that these taxes actually are borne by workers in the form of lower wages than they otherwise would receive. When workers lose their jobs and become unemployed, the reserves amassed in the federal unemployment insurance trust funds — which thus essentially represent taxes that workers have paid — should be used to provide additional weeks of unemployment benefits. This is one of the purposes for which these trust funds were established (and these taxes collected) in the first place.

⁴ These projections assume that the pattern of TEUC exhaustions observed during the first 4 1/2 months of the program continues through the remainder of calendar year 2002. The projection for the number of workers exhausting TEUC benefits by the end of the year is based on actual data on exhaustees through July. These data provide hard information on the number of TEUC exhaustees through July and also permit us to estimate the “exhaustion rate” — that is, the proportion of workers receiving TEUC benefits whose benefits run out before they are able to find a new job. We estimate the number of TEUC exhaustees for August, September, and October based largely on the number of workers currently receiving TEUC benefits and the exhaustion rate to date for this program.

For November and December, we also need to estimate how many new individuals will have exhausted their regular state-funded unemployment benefits and become eligible for TEUC in August and September. We do so based on the patterns of exhaustion of regular benefits in recent months. (Note: Most but not all workers who exhaust their regular benefits subsequently receive TEUC benefits; in recent months, slightly over 90 percent of those who have exhausted their regular unemployment benefits have subsequently received TEUC benefits.)

followed by Texas (78,000) and Florida (62,000). Because California and New Jersey were eligible to provide 26 weeks (rather than 13 weeks) of additional benefits until early July, fewer workers had exhausted UI benefits in those states by July 31.

More Workers Exhausting Federal Benefits in This Recession than in Last One

By the end of October 2002, more people will have exhausted their TEUC benefits than exhausted benefits in all of 1992 under the comparable program then in operation — the Emergency Unemployment Compensation program. The EUC program was established to provide additional federal benefits to the unemployed in response to the recession of the early 1990s.⁵

In the initial 12½ months of EUC, 1.4 million workers exhausted their benefits before finding work. Under the current TEUC program, 2.2 million workers are projected to exhaust their benefits before finding work by the end of 2002.⁶ (The 2.2 million projection for 2002 is based on reported data for TEUC through July 2002.)

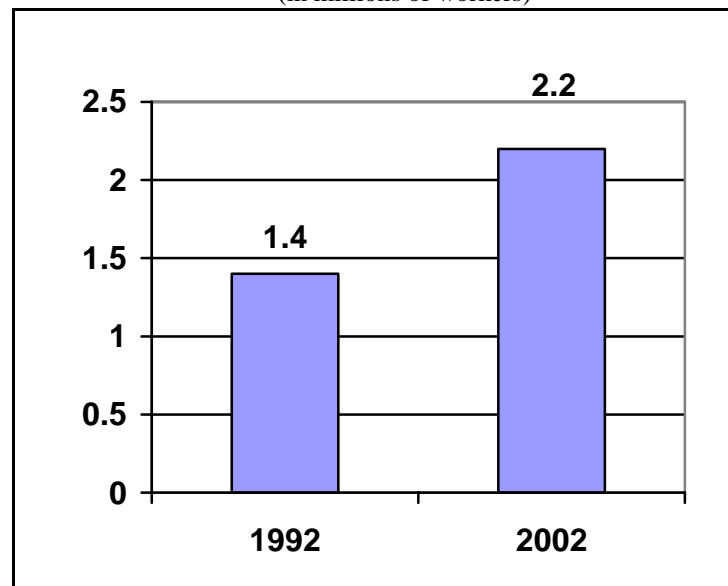
More than 60 percent of those receiving TEUC benefits are currently exhausting these benefits before finding work. In 1992, by comparison, about 45 percent of EUC beneficiaries exhausted their EUC benefits before finding work.⁷ A higher percentage of workers is exhausting benefits now primarily because fewer weeks of benefits are available today than in 1992, and unemployed workers thus have less time now than they did in the previous downturn to find work before their benefits terminate. The current high rate of exhaustion of benefits also may signal a labor market in which it is tougher to find a job.

⁵ The EUC program was enacted in November 1991 and originally provided 13 weeks of additional benefits in all states and another 7 weeks of benefits (for a total of 20 weeks of additional benefits) in high unemployment states. Two months later, in January 1992, the EUC program was expanded to make 33 weeks of additional federal benefits available in high unemployment states and 26 weeks in all other states. In July 1992, the program was scaled back somewhat so that 26 weeks of additional benefits were available in high unemployment states and 20 weeks in other states.

⁶ The number of workers who exhausted benefits during the first 12½ months of the EUC program is compared here to the number of workers who are projected to exhaust their TEUC benefits during the first 9½ months the TEUC program is in operation — that is, by the end of 2002. (TEUC started in mid-March 2002). The reason that the number of exhaustees during a 12½ month period under the EUC program is compared to the number of exhaustees during a 9½ month period under TEUC is that on average, about 15 more weeks of benefits were provided under the EUC program in the first half of 1992 — and about eight more weeks were provided in the second half of 1992 — than are being provided under the TEUC program today. To make a valid comparison between 1992 and 2002, exhaustions over a three-month longer period must be used for EUC. One needs to use exhaustions over a longer time period for a program that provides 26 weeks of benefits than for a program that provides 13 weeks of benefits. (There are fewer exhaustions in the first six months of a 26-week program than in the first six months of a 13-week program.)

⁷ Of the 4.6 million workers who received EUC benefits in the first 12½ months, some 3.1 million could have exhausted benefits in that period. (Some could not exhaust their benefits in that period because their benefits lasted into the subsequent period.) Some 1.4 million of these workers — slightly fewer than half — actually exhausted benefits; the other 1.7 million found a job before their benefits were scheduled to run out. Of the 4.4 million workers projected to receive benefits in 2002 under the TEUC program, 3.5 million potentially could exhaust these benefits by the end of 2002, and 2.2 million are projected to exhaust their benefits.

Number of Workers Exhausting (or will exhaust) Federal UI Benefits*
(in millions of workers)



*During comparable time periods; see text and footnotes 4 and 5.

Despite Continuing Weak Labor Market Conditions, Fewer States Meet the “High Unemployment” Indicator

Only two states currently qualify to provide 26 weeks of TEUC benefits. In the other states, 13 weeks of TEUC benefits are available. Ten states qualified to provide up to 26 weeks of TEUC benefits at the time the stimulus legislation was enacted in March, and two additional states qualified later. Of these twelve states, ten have since fallen out of the “high unemployment” category.

For the most part, these states have fallen out of the high-unemployment category *not* because their employment picture has improved significantly, but because of a flaw in the formula for determining whether a state is a “high employment” state. The formula fails to count as unemployed those workers who exhaust their regular unemployment benefits (i.e. their initial 26 weeks of state-financed benefits) and remain out of work. Thus, the longer that unemployment remains elevated — and the greater the number of workers who have been jobless for more than six months — the less likely a state is to count as having “high unemployment.” (A further problem is that the unemployment rate measure used to determine if a state is a “high unemployment” state is not seasonally adjusted. Unemployment typically declines in summer months and rises in the winter. The seasonal declines this summer have contributed to states dropping out of “high unemployment” status more quickly.)

The overall unemployment picture has changed little since the stimulus bill was enacted. In March 2002, the unemployment rate was 5.7 percent. In August, the latest month for which data are available, the rate was 5.7 percent. The Congressional Budget Office projects that unemployment will remain in the vicinity of six percent until the second half of 2003.

Unemployment Has Increased Significantly and Is Expected to Remain High

For several reasons, it would be wise to make improvements now in the TEUC program. First, the number of people who are unemployed is high — more than 8.1 million in August — and has increased significantly over each of the past two years. Some 2.3 million more people were unemployed in August 2002 than in August 2000. Some 1.2 million more were unemployed this August than in August 2001.

A second indicator of the need to revisit unemployment insurance issues is the rise in long-term unemployment — that is, in the number of people who have been out of a job for at least six months and are looking for work. The number of people who exhaust their *regular* state-funded unemployment benefits reflects the level of long-term unemployment, as most workers who exhaust regular benefits are workers who have been unemployed for at least six months.

Nearly 1.2 million workers exhausted their regular unemployment benefits in the second quarter of 2002. In the same quarter of 2000, only 524,000 workers exhausted their benefits. Exhaustions of regular unemployment benefits are thus more than double their level of two years ago. In the previous recession, the number of workers who exhausted their regular unemployment benefits increased less sharply.⁸

Finally, most economic forecasters expect the unemployment rate to remain high for a number of months in the future. As noted, the latest CBO forecast states that “the unemployment rate is expected to remain around 6 percent until the second half of 2003.”⁹

Extending and Strengthening TEUC Also Would Be Excellent Stimulus

The temporary provision of additional federal benefits to the unemployed in the wake of economic downturns serves a dual purpose. Beyond directing needed income support to those whose spells of unemployment are lengthened by recessionary conditions, the provision of additional weeks of benefits constitutes well-designed economic stimulus.

- Unemployment insurance benefits are quickly injected into the economy. As Nobel Prize winning economist Joseph Stiglitz observed last fall, “give money to people who have lost their jobs in this recession, and it would be quickly spent.”¹⁰ A 1999 study published by the Department of Labor found that in past recessions, each dollar of unemployment benefits probably increased the Gross Domestic

⁸ The number of workers who exhausted their regular unemployment benefits rose 73 percent between the second quarter of 1990 and the second quarter of 1992. It rose 120 percent between the second quarter of 2000 and the second quarter of 2002.

⁹ Congressional Budget Office, “The Budget and Economic Outlook: An Update,” August 2002.

¹⁰ Joseph Stiglitz, “A Boost That Goes Nowhere,” *The Washington Post*, November 11, 2001, page B1.

Product by \$2.15.¹¹ Moreover, there is virtually no delay in providing such stimulus, because additional benefits can be paid immediately through the existing unemployment insurance system.

- Unemployment insurance benefits are naturally targeted to areas that have been hit the hardest by an economic slump. The benefits go disproportionately to areas with large concentrations of unemployed workers who qualify for the benefits. These benefits thus spur demand where it has deteriorated the most and where strengthened demand is most needed.

In fact, unemployment benefits appear to be a considerably more effective economic stimulus than tax relief. This is largely because a greater portion of unemployment benefits than of tax-cut benefits are spent quickly. A study by Alan Auerbach and Daniel Feenberg found that, dollar for dollar, the unemployment insurance system is eight times more effective than the tax system in offsetting the effects of a recession.¹² (This lesson was not heeded in the design of the March stimulus package, which tilted toward tax cuts. The bill's depreciation tax-cut provision is estimated to provide \$97 billion in tax cuts over three years. This is nearly seven times the \$14 billion cost of the provisions providing additional assistance to the unemployed.)

A final way in which additional federal unemployment benefits constitute a well-designed response to the effects of a downturn is the manner in which they phase out. TEUC is a temporary program; it terminates after a specified period of time. In addition, even while TEUC is in operation, the amount (and the cost) of the benefits it provides declines automatically as the economy recovers and unemployment eases.

Conclusion

The Congressional Budget Office projects that the unemployment rate will not decline from current levels until the second half of 2003. This projection, combined with the reality that large numbers of workers are exhausting their unemployment benefits before finding work, should prompt Congress and the Administration to consider acting to strengthen the TEUC program. Additional weeks of benefits should be provided to individuals who have exhausted their benefits before finding a job. In addition, the TEUC program, currently scheduled to expire on December 31, needs to be extended for at least six months.

¹¹ 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.

¹² Alan Auerbach and Daniel Feenberg, "The Significance of Federal Taxes as Automatic Stabilizers," *Journal of Economic Perspectives*, Vol. 14, Number 3, Summer 2000, pages 37-56.

**Number of Workers Exhausting TEUC Benefits by July 31
and Number of Workers Currently Receiving TEUC Benefits**

| States | Number of workers who have exhausted TEUC benefits (cumulative through July 31) | Number of workers receiving TEUC benefits in the week ending August 3 |
|-----------------------|--|--|
| Alabama* | 10,332 | 11,324 |
| Alaska | 1,943 | 3,416 |
| Arizona | 11,191 | 7,754 |
| Arkansas | 7,307 | 6,830 |
| California** | 37,735 | 185,811 |
| Colorado | 12,733 | 13,503 |
| Connecticut | 13,005 | 12,405 |
| Delaware | 1,801 | 1,857 |
| District of Columbia* | 3,236 | 1,621 |
| Florida | 62,484 | 38,061 |
| Georgia** | 40,518 | 22,433 |
| Hawaii | 3,172 | 3,164 |
| Idaho | 1,984 | 4,024 |
| Illinois | 57,734 | 46,736 |
| Indiana | 21,936 | 13,095 |
| Iowa | 7,895 | 5,768 |
| Kansas | 4,017 | 6,812 |
| Kentucky | 11,743 | 9,725 |
| Louisiana | 9,991 | 7,095 |
| Maine | 2,936 | 2,466 |
| Maryland | 13,686 | 9,596 |
| Massachusetts | 17,132 | 57,093 |
| Michigan** | 39,288 | 60,495 |
| Minnesota | 17,314 | 12,750 |
| Mississippi | 10,841 | 6,566 |
| Missouri | 18,725 | 13,557 |
| Montana | NA | 1,147 |
| Nebraska | NA | 2,616 |
| Nevada** | 9,740 | 6,932 |
| New Hampshire | 1,391 | 2,080 |
| New Jersey** | 7,080 | 73,033 |
| New Mexico | 2,955 | 2,350 |
| New York | 110,596 | 66,482 |
| North Carolina | 28,905 | 27,674 |
| North Dakota | 1,204 | 523 |
| Ohio | 36,530 | 32,055 |
| Oklahoma | 7,734 | 6,025 |
| Oregon | 650 | 29,775 |
| Pennsylvania** | 58,336 | 97,864 |
| Rhode Island | 4,825 | 3,163 |
| South Carolina | 18,654 | 13,795 |
| South Dakota | 322 | 435 |
| Tennessee | 30,766 | 17,721 |
| Texas | 77,573 | 48,442 |
| Utah | 5,464 | 4,044 |
| Vermont | 1,045 | 1,133 |
| Virginia | 15,706 | 11,935 |
| Washington | 3,992 | 48,724 |
| West Virginia | 3,179 | 3,162 |
| Wisconsin** | 17,033 | 16,606 |
| Wyoming | 848 | 421 |
| Total | 889,578 | 1,082,094 |

*July exhaustion data for these states estimated based upon trends in May and June.

**Original Department of Labor data adjusted based upon conversations with state officials. Generally, our revised data find lower numbers of exhaustions than the original Department data.

Source: Department of Labor. Some data remain preliminary and may be adjusted on the basis of further information from the states.