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Unemployment Insurance Reforms Should Be Part of Economic Recovery Package

McConnell Criticism of Part-Time Worker Proposal Is Misplaced

by Martha Coven and Chad Stone

As part of the forthcoming economic recovery package, Congress and President-elect Obama are reportedly considering a series of reforms to the unemployment insurance (UI) system. These reforms, based on the recommendations of a bipartisan advisory council, would encourage states to modernize the program (which was designed in the 1930s) so that fewer workers — particularly women and lower-wage workers — are excluded when they are laid off. They would also provide effective stimulus for the economy.

On January 4, Senate Minority Leader Mitch McConnell raised concerns about one of the proposed reforms. When asked on ABC's "This Week with George Stephanopoulos" whether he would support "extending unemployment benefits to part-time workers," McConnell responded, "I might, but those are very big, systemic changes.... Do we in the name of stimulus want to make long-term, systemic changes that will affect spending every single year?"

This criticism is misplaced, as explained below.

- **Unemployment insurance needs to be modernized.** Many fewer than half of unemployed workers actually receive unemployment insurance.¹ This is just one of many signs that the program, designed when the majority of the workforce consisted of married men who were the sole breadwinners for their family, does not reflect the realities of work and family life today. Many workers who lose their jobs receive no benefits, even though their employers have paid UI taxes on their behalf. Women are particularly likely to face challenges qualifying for UI benefits because they often have different work patterns from men.
- **A bipartisan group recommended these reforms more than a decade ago.** In 1994, the bipartisan, blue-ribbon Advisory Council on Unemployment Compensation, appointed by the President and congressional leaders and headed by esteemed former Bureau of Labor Statistics Commissioner Janet Norwood, identified a number of serious problems with UI eligibility and other rules and recommended a series of reforms. While some states instituted some of the

¹ The share was less than 40 percent prior to the start of the current recession, but it has edged up since then, as is usually the case when the economy weakens substantially.

reforms, the federal government made no comprehensive effort to consider the panel's recommendations. Among the council's top recommendations were:

- ✓ *Counting workers' recent earnings.* Many states established their UI rules in the pre-computer era, when employment data were not available on a timely basis. As a result, these states *exclude* workers' most recent three to five months of employment when determining if workers have worked and earned enough to qualify for UI. Reflecting the realities of the "information age," 19 states and the District of Columbia have since abandoned this outmoded practice and now consider data on workers' employment in the most recent completed calendar quarter when determining UI eligibility and benefits. But in the other states, low-wage workers often are ineligible for benefits (or qualify for smaller benefits) when they lose their jobs because the state does not count their most recent earnings.
- ✓ *Covering part-time workers.* Only 19 states and the District of Columbia allow people who are laid off from part-time employment and are seeking a comparable part-time job to qualify for UI benefits. All other states require UI applicants to look for a full-time job, even if they were working part-time before being laid off, are parents raising very young children, and meet all other eligibility requirements — including having a sufficient earnings history. This outdated requirement particularly disadvantages women, who are much more likely to work part-time than men.

Covering such part-time workers would *not* provide them with comparable benefits to full-time workers, since workers' UI benefit levels are based on how much they earned before being laid off. People who worked part time before being laid off generally earned less than people who worked full time and hence would receive smaller UI benefits. The problem is that in the majority of states, they can receive *no* benefits at all.

- **Proposal would encourage states to modernize their UI systems.** The reforms under discussion would *not* come in the form of a federal mandate. Rather, they would use federal funds to provide temporary incentives to states to modernize their UI systems.² States that have already adopted key reforms, such as considering workers' recent earnings and not automatically disqualifying people seeking part time work, would be rewarded with federal funds to bolster their unemployment trust funds on a temporary basis; states that respond to the new incentives by adopting the reforms would receive temporary federal funds that would cover the cost of paying the associated benefits for several years. But there would be *no ongoing cost* to the federal government, because regular unemployment insurance benefits are fully state-funded. (Federal funding is used only for state administrative costs and for temporary extended unemployment insurance benefits during periods of high unemployment.)
- **Covering part-time workers would help working mothers and their children.** Encouraging states to cover part-time workers would have another benefit — it would enable many working mothers who are laid off to receive modest help to help support their children in the rough economic period ahead. If mothers who have worked part time while raising young

² The reforms were outlined in the Unemployment Insurance Modernization Act, a bipartisan bill introduced in both chambers in the 110th Congress. For an analysis of the bill, see Chad Stone, Robert Greenstein, and Martha Coven, "Addressing Longstanding Gaps in Unemployment Insurance Coverage," Center on Budget and Policy Priorities, revised August 7, 2007, <http://www.cbpp.org/7-20-07ui.htm>.

children lose their jobs in the recession and are denied any unemployment benefits whatsoever, many of their children will fall into poverty.

- **Modernizing UI would be effective economic stimulus and facilitate economic recovery.** According to the National Employment Law Center, more than 500,000 workers could benefit each year from the proposed UI reforms. These workers are very likely to spend (rather than save) most or all of their UI benefits, given the considerable strain that a job loss puts on a family's budget. As a result, state adoption of these reforms would help boost consumer demand, and in turn, production and job growth. In fact, the economic stabilizing effects of unemployment insurance were one of the reasons why Congress created the program during the Great Depression.