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Revised June 16, 2008

THE UNEMPLOYMENT RATE IS ALREADY HIGH ENOUGH TO WARRANT EXTENDED BENEFITS

Past Is Poor Guide to When the Time Is Right

By Chad Stone and Martha Coven

On June 6, the U.S. Department of Labor reported that the unemployment rate had risen sharply, to 5.5 percent. Legislation is moving on Capitol Hill to provide additional weeks of unemployment insurance (UI) benefits to people whose regular benefits run out before they can find a new job. (The House passed such legislation June 12.) That is how the federal government generally responds when the job market weakens substantially. Yet the Administration has continued to oppose such a benefit extension.

On the day the Labor Department report came out, a White House spokesperson defended the Administration's position by saying that "No administration has increased — or extended — unemployment benefits when unemployment was this low, at 5.5 percent. Now while we've seen an increase, it's still at historically low levels." There are three things wrong with that defense. (See the box on page 4 for a discusson of several other arguments the Administration has raised.)

First, past experience is a poor guide to the best time to enact extended unemployment benefits. In past recessions, Congress and the administration typically were late to recognize the need for such an extension or wrangled over the need for such action as labor-market conditions worsened. Prompter action would have provided worthwhile economic stimulus when it was most needed and relief to workers looking for a job in a worsening labor market.

Second, it is misleading to imply that extending unemployment benefits was never considered in the past when the unemployment rate was "only" 5.5 percent. President Bush himself proposed a narrow expansion of unemployment benefits in the fall of 2001 at a time when the national rate was 4.9 percent.

Third, the unemployment rate has not been the best indicator of overall labor-market weakness over the past several months and is certainly not the best measure of the need for extended benefits. Federal extended benefits are designed to assist the long-term unemployed — those who have been looking for work for six months or longer and have therefore run through their regular unemployment benefits. *Long-term unemployment is now higher than it was in March 2002, when the President signed the law providing federal extended benefits in the prior recession.*

Extended Benefits Were Not Enacted on a Timely Basis in the Past

Federally funded extended unemployment benefit programs have been enacted seven times over the past half century — in response to the recessions of 1957-58, 1960-61, 1969-70, 1973-75, 1981-82, 1990-91, and 2001. As Table 1 shows, in five of these recessions, policymakers took so long to act that extended benefits did not go into effect until after the recession had ended. Extended benefits were enacted eight months after the end of the 1990-91 recession and four months after the end of the 2001 recession.

TABLE 1
Extended Benefits Frequently Not Enacted Until Recession Is Over

Recession	Starting Month	Ending Month	Month Extended Benefits Were Enacted	Months of Recession	Months from Start of Recession to Enactment of Extended Benefits
1957-58	Aug-57	Apr-58	Jun-58	8	10
1960-61	Apr-60	Feb-61	Mar-61	10	11
1969-70	Dec-69	Nov-70	Dec-71	11	24
1973-75	Nov-73	Mar-75	Dec-74	16	13
1981-82	Jul-81	Nov-82	Sep-82	16	14
1990-91	Jul-90	Mar-91	Nov-91	8	16
2001	Mar-01	Nov-01	Mar-02	8	12

To be sure, each of the last two recessions was followed by a long jobless recovery, and extended benefits, once enacted, provided necessary and welcome relief to unemployed workers who ran out of their regular UI benefits before they could find a new job. But many other unemployed workers missed out on these benefits because of the delay in enacting the program. Those workers were already having trouble finding work when the recession began, and, as the recession deepened, were faced with a harsher job market and the exhaustion of their regular unemployment benefits.

In addition to helping unemployed workers, extended UI benefits provide economic stimulus that can keep a weak economy from getting weaker. Extended benefits were not included in the stimulus package passed earlier this year. But with economic forecasters downgrading their growth estimates for the second half of this year, a UI extension would supplement the rebate checks that are expected to have their greatest impact over the next few months and fill some of the gap later in the year when the effect of the rebates begins to wear off.

Extending UI benefits is one of the most highly rated economic stimulus measures. Moody's Economy.com recently rated UI benefits as having the second-highest "bang for the buck" of all stimulus options (after additional food stamp benefits), generating $1.64 in additional economic activity for every dollar in cost. This is because extended UI benefits are extremely well targeted. Unemployed workers have bills to pay and diminished income with which to pay them; they therefore are likely to spend any additional funds they receive. Waiting until the unemployment rate has climbed to a high level and *then* enacting extended benefits is like holding back medicine for a sick patient until he arrives in the emergency room.

At 5.5 Percent, Unemployment Rate Is Not Too Low to Warrant a UI Extension

It is misleading of the Administration to imply that an extension of UI was never considered in the past when the unemployment rate was this "low." The experience in 2001 is instructive. The unemployment rate began to rise slowly in 2001, starting from 4 percent at the end of 2000. The start of the recession was subsequently dated as March 2001.

After the unemployment rate reached 4.9 percent for September,[1] the President himself proposed a UI extension, although it was very narrowly targeted. In November 2001, the Senate Finance Committee passed a stimulus bill with a UI extension that was broader than the President's and more like the ones typically enacted in previous recessions. The information available to lawmakers at the time showed a 0.5 percent jump in the unemployment rate, from 4.9 percent to 5.4 percent, between September and October. (The rate then moved up to 5.6 percent in November.[2] It took until March 2002 before a stimulus package containing a UI extension was finally enacted, by which time the unemployment rate had risen to 5.7 percent.)

Long-Term Unemployment Is a Better Measure of the Need for UI

The unemployment rate has not been the best indicator of weakness in the labor market and is certainly not the best measure of the need to extend UI benefits. The jump in the official unemployment rate to 5.5 percent in May did, however, start to reflect the extent of weakness in the job market long shown by other indicators. The Labor Department's most comprehensive alternative unemployment rate measure — which includes people who want to work but are discouraged from looking and people working part time because they can't find full-time jobs — stood at 9.7 percent in May.

In addition, labor-force participation never rebounded from the 2001 recession: 4.8 million people who are not in the labor force say they want to work. Many of them would presumably be looking seriously for a job if they thought they had a better chance of finding one.

So far this year, private employers have shed almost 400,000 jobs, and total payroll employment (including government jobs) is down by well over 300,000. The share of the population with a job is 1.7 percentage points lower than at the start of the last recession in March 2001. Were that share the same as in March 2001, 4 million more people would be working.

The best labor-market measure of whether extended UI benefits are needed is *not* the overall unemployment rate, but any of several measures related to *long-term* unemployment; after all,

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[1] The unemployment rates cited in this section were the unemployment rates available to policymakers at the time. Those data have been subject to minor subsequent revisions that are reflected in the most recent historical series.

[2] These numbers have subsequently been revised to 5.0 percent in September, 5.3 percent in October, and 5.5 percent in November.

Statement of Administration Policy Offers
No Convincing Arguments against Extending UI Benefits

On June 11, the Administration released a Statement of Administration Policy (SAP) stating that it "strongly opposes" H.R. 5749, legislation the House passed the next day to provide 13 additional weeks of unemployment benefits in all states, and 26 weeks in certain high unemployment states. Among the arguments the SAP makes against the legislation, the following in particular merit a response:

- ***"The Federal-State extended benefits program already can provide up to 13 additional weeks of benefits."*** The permanent Extended Benefits (EB) program currently on the books is widely regarded as broken and in need of major reform. A bipartisan blue ribbon panel concluded in 1994 that the program "is incapable of performing its intended function during periods of significant unemployment," as confirmed by the fact that *no state in the country except Alaska now qualifies for extended benefits* — not even very high unemployment states like Michigan, where the unemployment rate is 7.1 percent. (Alaska qualified on June 1.)
- **"At present, a majority of States have unemployment rates at or below 5 percent, and it is fiscally irresponsible to provide extra benefits in States with low unemployment rates."** The extended benefits law that President Bush signed in March 2002 provided 13 extra weeks in all states, including 18 states where the unemployment rate was below 5 percent. That was not fiscally irresponsible then, since the bulk of the costs were going to be incurred in states where the unemployment rate was high and where most of the people needing extended benefits lived; the same would be true now. There can be diverse job market conditions *within* low-unemployment states, and a weak national labor market makes job search more difficult for unemployed workers anywhere who are willing to move to find work.
- ***"Under this bill, individuals who have worked as little as two weeks could qualify for up to 52 weeks of total unemployment benefits."*** This statement is misleading. *No workers would qualify for extended benefits unless they already met the typically quite stringent requirements that states impose for receiving regular unemployment benefits.* These requirements are an important reason why only 36 percent of unemployed workers nationally receive regular UI benefits. For nearly two decades, major gaps in UI coverage have been evident, especially among low-income workers, women, and workers who have suffered permanent job losses. The Administration calls for imposing further eligibility restrictions on which long-term unemployed workers could qualify under the bill for additional weeks of benefits after their regular UI benefits have run out. These additional restrictions would disqualify even larger numbers of needy unemployed workers.

  The Administration's claim that workers who are employed for as little as two weeks could qualify is misleading for other reasons, as well. Only in rare circumstances could a worker with such a limited work record meet his or her state's regular UI requirements, which target assistance on workers with a demonstrated attachment to the labor force. Moreover, workers with quite limited work histories who do manage to qualify typically get only a small weekly benefit and only for a very limited period of time (for many fewer weeks than the maximum 26 weeks). Under the pending legislation, in the rare circumstance that a worker with a very limited work record could qualify for additional benefits at all, the worker would again qualify for only a small weekly benefit — and for a duration equal to only *half* of the already limited number of weeks for which the worker was able to receive regular UI benefits. In short, the share of the additional benefits under the bill that would go to workers with very limited work records is almost surely miniscule. Most important, the primary effect of the additional eligibility restriction that the Administration seeks would be to deny additional weeks of benefits to many low-income unemployed individuals (especially women) who worked for substantially longer than a few weeks before being laid off and who continue to search for a job but are facing hardship because they cannot find one in the current weak economy.

extended UI benefits are targeted on the long-term unemployed. These measures show that conditions are considerably harsher now than at the start of the last recession. The percentage of the unemployed who have been out of work for six months or more is far higher (18.3 percent) than it was at the start of the last recession (11.1 percent). It is also significantly higher than the 15.9 percent level in March 2002 when UI benefits were extended in the last recession. The percentage of those receiving UI who exhaust their regular benefits before finding a job (36.6 percent) is also higher now than at the start of the last recession (31.7 percent). These data show that workers who have lost their jobs are having a particularly hard time finding new employment in this economy. That’s exactly the situation that extended UI benefits are meant to address.