Joint Economic Committee Democrats

Representative Pete Stark (D-CA) – Ranking Member

Economic Policy Brief April 2003

Republican Budget Resolutions Ignore the Plight of Long-Term Unemployed Workers

Overview

The economy is still in a slump and the number of people exhausting their regular unemployment insurance benefits is still high. The evidence supporting the need for another extension of temporary federal Unemployment Insurance (UI) benefits is overwhelming. Yet neither of the budget resolutions passed by the Republican-controlled House and Senate provides for a further extension of Temporary Extended Unemployment Compensation (TEUC) benefits beyond May 31.[1]

Nor do they provide for any further assistance to the approximately one million workers who have exhausted all of their unemployment benefits and still have not found work.[2] Instead, a new program—Personal Reemployment Accounts (PRAs)—would receive $3.6 billion in funding in the House budget resolution, but this Administration proposal was not included in the Senate budget resolution. (See box on page 7.)

The following are the main reasons why another extension of UI benefits is needed:

- **This recession is as serious as the recession of the early 1990s.**

Unemployment today is higher than when TEUC was first enacted in March 2002. The fact that today's unemployment rate is less than 6 percent and below last recession's peak unemployment rate of 7.8 percent in June 1992, is not the relevant consideration. What matters is that the increase in the unemployment rate, the extent of job loss and the duration of unemployment spells are comparable to what they were in the last recession.[3]

Even if unemployment rates decline over the next two months and drop below the unemployment rate which existed when TEUC was created in March, 2002, ending the program at the end of May would be premature.

- **An extension of federal unemployment benefits should continue until exhaustions of regular state UI programs have diminished significantly.**

This should be the prime criterion which should govern whether an extension of temporary federal UI benefits is needed. Today exhaustions are still high and increasing. When temporary federal benefits ended in the last recession, exhaustions had declined for 19 months and had partially returned to normal pre-recession levels. Approximately 2 to 2.5 million unemployed workers will be affected over the next seven months if an extension through the end of the year is not enacted.

- **Previous UI extensions were more generous.**

During the last recession, the temporary federal program lasted 27 months, but if it is allowed to expire at the end of May, the current program will have lasted only 15 months. Also, at this stage of the last recession, a minimum of 20 weeks of additional federal UI benefits were provided in all states. Today, only 13 weeks of benefits are provided in all but six states. Many more states were classified as "high unemployment" in the last recession and thus provided more than 20 weeks of benefits.

- **An extension of UI benefits is one of the best forms of economic stimulus.**

Providing extended UI benefits is a particularly effective economic stimulus policy, because it puts money in the hands of people who need it and will spend it immediately. That spending then supports job creation and growth in a weak economy.

This Recession is at Least as Serious as the Last

This recession was following very closely the pattern of the 1990s jobless recovery. Since the start of the current downturn, private sector job loss, measured as a percentage change in the number of private sector jobs, had been declining at the same rate as the last recession **(Chart 1)**. However, during the last four months the pattern has changed, and private sector job loss in the current recession is now larger and appears to be more serious than private sector job loss in the 1990-91 recession. In March, private sector employment was 2.3 percent below its level in March 2001 and there were 2.6 million fewer jobs than when the recession began. At the same point in the business cycle a decade ago, private payrolls were only 1.5 percent below peak. Thus, over 900,000 more jobs have been lost since this recession began 24 months ago than during the last recession.

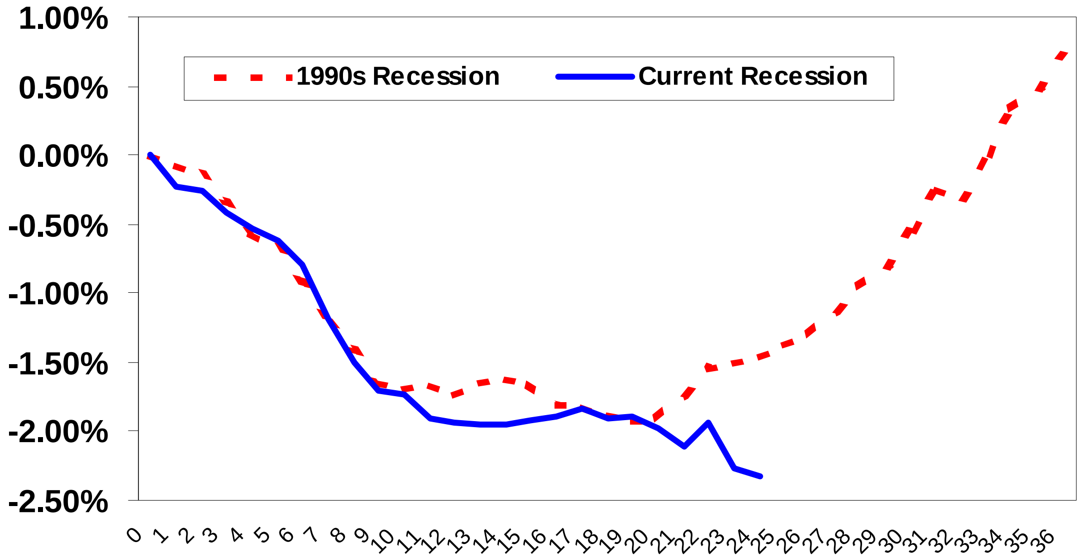
Moreover, on average, job losses in a recession bottom out after about 15 months and are erased within two years. The persistence of job losses at the two-year mark in this recession is the most severe since the 1930s **(Chart 2)**.

In addition, the proportion of the working age population with jobs has declined by 2.0 percentage points since its business cycle peak in March 2001. At the same point in the business cycle a decade ago, the employment-to-population ratio had declined by only 1.2 percentage points. This means that 1.7 million more people are not employed or have dropped out of the labor force during this recession than the in last one.

Chart 1

Current Recession Appears More Serious Than Jobless Recovery of the 1990s

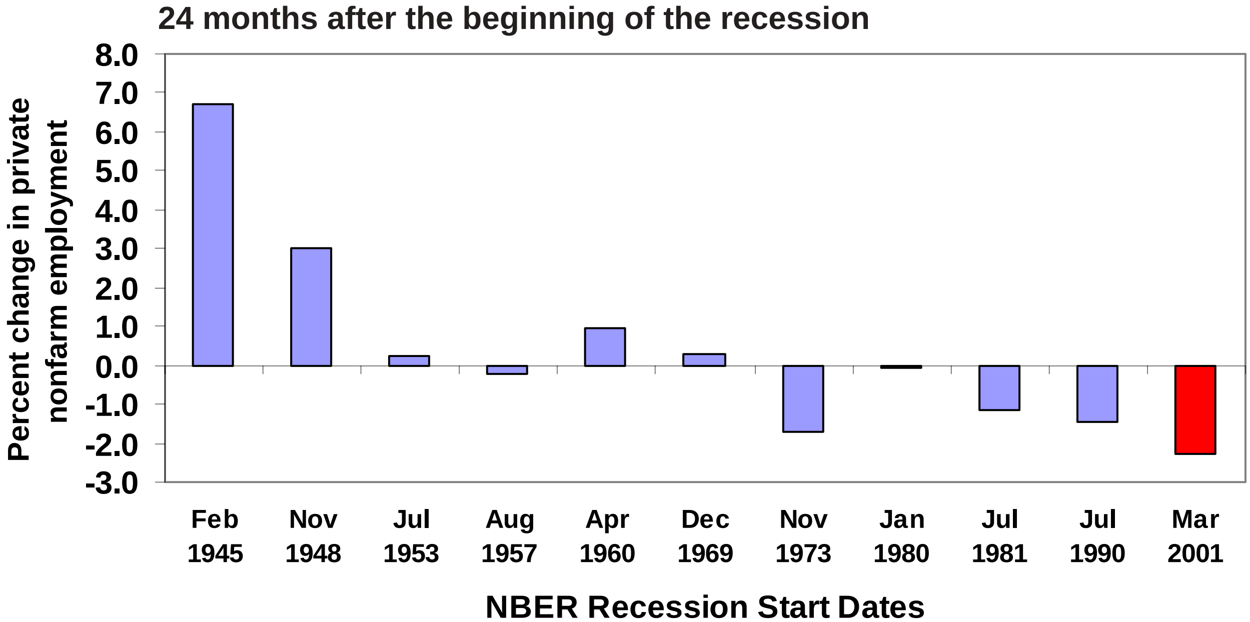
Percentage change in number of private sector jobs since peak of business cycle



Source: Establishment Payroll Survey, Bureau of Labor Statistics, U.S. Department of Labor.

Chart 2

Recovery in Private Sector Jobs is the Slowest Since the 1930s



Source: Bureau of Labor Statistics, U.S. Department of Labor; and National Bureau of Economic Research (NBER).

Because the unemployment rate is lower now (5.8 percent) than it was during the economic slump of the early 1990s (7.8 percent at its peak), many have mistakenly concluded that the employment situation is less dire today than it was a decade ago. This is wrong. The impact of a recession is best measured by the change in unemployment or the change in the number of jobs from pre-recession levels – not by the level of unemployment or employment. The jump in the unemployment rate in this recession is roughly comparable to the increase that took place in the early 1990s. This means that the increase in the numbers of unemployed individuals is comparable to the last recession.

The final indicator of the seriousness of this recession is what has happened to exhaustions of regular state UI benefits **(Chart 3)**. The number of exhaustions of regular state UI benefits measures the number of unemployed individuals who cannot find work prior to running out of unemployment benefits. The increase in the past year of the number of workers exhausting regular state UI benefits is 2.2 million more than when the recession began. This increase in the number of exhaustions is more than the increase in the previous recession (some 2.0 million even after adjusting for the size of the labor force).[4] Not only is the number of exhaustions greater, the exhaustion rate is also higher. The Department of Labor computes a 12-month moving average exhaustion rate–the percentage of workers who first receive a UI benefit check and who run out of regular state UI benefits without finding a job. This exhaustion rate is the *highest* (43.1 percent) in the post-World War era.

Thus, a careful assessment of the full range of labor market indicators shows that the job market today is at least as weak and possibly weaker than it was in the 1990-91 recession and subsequent jobless recovery.

Extensions of Benefits Should Continue Until Exhaustions Decline

Extensions of temporary federal benefits should continue until regular state UI exhaustions have declined significantly **(Chart 3)**.[4] This should be the prime criterion in determining whether another extension is needed. Until those levels decline back to pre-recession levels, further extensions are needed because workers are not finding jobs before exhausting benefits.

When the economy is not in recession, roughly 30 percent of unemployed workers who first receive UI benefits exhaust those benefits. Today that rate exceeds 40 percent. In the wake of the 1990-91 recession, regular state UI program exhaustions peaked in September 1992 and the federal extension ended in April 1994, some 19 months later. Today, state UI regular program exhaustions are still increasing. Exhaustions in February 2003 totaled 327,000; an increase of about 22,000 or 7 percent, relative to February 2002. Thus, it may be several months before exhaustions peak and then many months after that before exhaustions return at least part of the way back to non-recession levels. Thus, by historical standards based upon the pattern of regular state UI exhaustions, the temporary federal UI program should be extended for many additional months.

Some 2.0 to 2.5 million workers will exhaust regular state benefits after May and throughout the remainder of the year. This estimate is consistent with CBO unemployment projections and historical exhaustion patterns. This is the number of unemployed workers who will be adversely affected in 2003 if an extension of temporary federal benefits is not enacted.

Previous UI Extensions Were More Generous

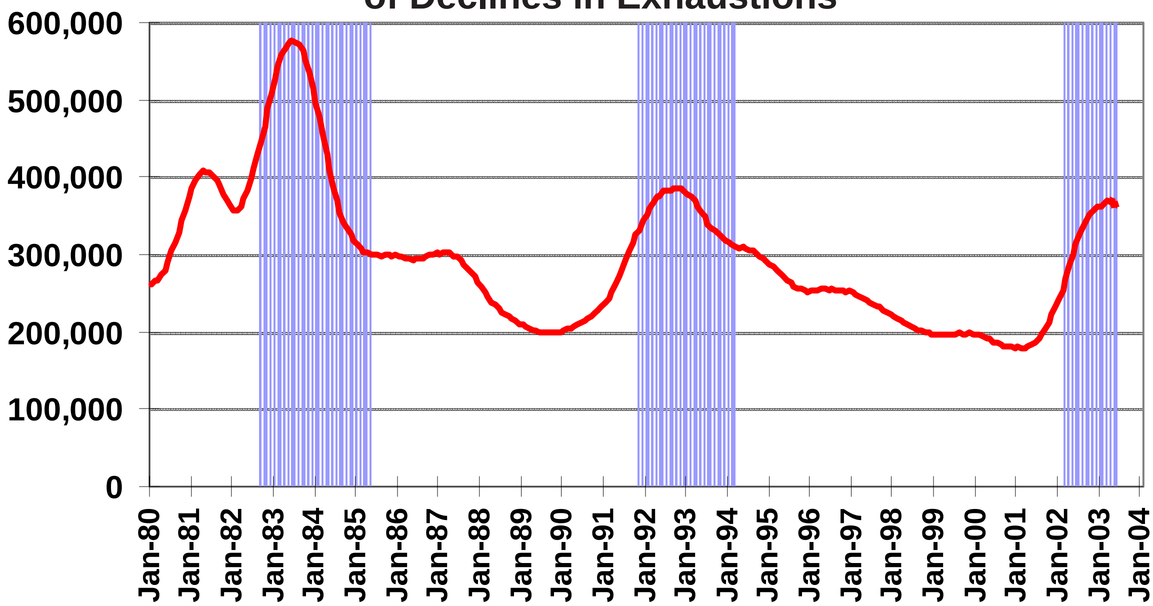
In the 1990-91 recession, the federal UI program lasted 27 months and was extended four times, twice by President George Herbert Walker Bush. Initially all workers received a minimum of 26 weeks of benefits and workers in high unemployment states received 33 weeks. Two years after the recession began, the minimum number of weeks a worker could get was reduced from 26 weeks to 20 weeks. And in high unemployment states, the number of weeks was reduced from 33 to 26 weeks. Many more workers were in high unemployment states compared with the current situation where only five states are classified as "high unemployment states."

Today, two years after the recession began and while exhaustions of regular state UI benefits are

Chart 3

UI Exhaustions Are Still Rising

Previous Federal UI Benefits Ended After Many Months of Declines in Exhaustions



Adjusted Exhaustions of Regular State UI Benefits (12-Month Moving Averages)

Notes: Temporary Federal UI Program in place during shaded regions. Data are projected after February, 2003. Exhaustions are adjusted to reflect increases in the size of the labor force.

still increasing, workers are only eligible for 13 weeks in most states. Because the current federal UI program is less generous than during the previous recession, many more workers have exhausted their temporary UI benefits in the first eleven months of the program's existence — 2.4 million versus 1.3 million after adjusting for the size of the labor force **(Chart 4)**. Predictions of the number of workers who will exhaust all of their UI benefits over the next four months continue to exceed exhaustions in the early 1990s recession, even after adjusting for the size of the labor force. By the end of May, a predicted 3.2 million workers will have exhausted all of their temporary federal UI benefits before finding work, compared to 2.2 million in the last recession (adjusted for the size of the labor force and comparing the programs for an equivalent length of time).

Thus, it may be several months before exhaustions peak and then many months after that before exhaustions return at least part of the way back to non-recession levels.

Regular state program UI exhaustions are continuing to climb but are likely to plateau at some point and then begin to decline. (These projections are not that difficult given that we already know how many workers first started to receive state UI benefits in the last six months). However, the federal UI program in the last recession lasted for 19 months while regular state program exhaustions declined back towards their former levels. That clearly indicates that by historical standards, the UI program should be extended for many additional months. In addition, one million workers have exhausted all of their unemployment benefits without finding work and are still unemployed.[5] Most of those workers would have received additional weeks of assistance if the temporary federal program today were as generous as the temporary program in the wake of the 1990-91 recession.[6] These workers should be provided additional assistance when the next extension of federal UI benefits is considered.

Altogether some $28.5 billion was spent in the last recessionary period on temporary federal benefits. The equivalent of $28.5 billion today after adjusting for the size of the current labor force and inflation would be almost $44 billion. Through February 2003, some $12.2 billion has been spent and even with the extension of benefits that was enacted in early January 2003, only $16.2 billion will have been spent in this recessionary period when the current temporary federal program ends – less than one-half of what was spent in the last recession.

UI Benefits Provide Effective Stimulus

An extension of UI benefits is a particularly effective economic stimulus policy because it puts money in the hands of people who need it and will spend it.[7] That spending then supports job creation and economic growth in a weak economy. Unemployment Insurance in general is an important anti-recessionary government program. Its impact is automatic and immediately counter-cyclical. During periods of increasing unemployment, total earnings decline and consumer spending falls. UI benefits partially replace these lost earnings, thereby lessening the overall decline in consumer spending. UI is particularly effective because recipients are very likely to spend most of their benefits rather than save a large portion, thus supporting consumption.

Conclusion

Like the President's proposed budget for fiscal year 2004, the budget resolutions passed by both the House and Senate do not provide additional weeks of assistance for unemployed workers who will be exhausting regular state benefits after May 2003. Nor do they extend UI benefits for the one million unemployed workers who are searching for work but have exhausted all current benefits. Most of those workers would have received additional weeks of assistance following the 1990 recession. Administration estimates indicate that the unemployment rate is not expected to decline rapidly in the near future. While the Administration proposes large tax cuts that permanently assist the wealthy, one million workers are struggling to heat their homes, feed their families, and find new jobs. There is no doubt that a further extension of UI benefits is necessary. Long-term unemployment as measured by the number of unemployed workers exhausting regular state benefits will not decline to normal levels for many months. The current Bush Administration and the Congress should follow the example of the first Bush Administration and continue to extend federal UI benefits.

Endnotes

[1] Temporary federal UI benefits were enacted in mid-March 2002, but expired at the end of the year when the House of Representatives and the Bush Administration objected to passing the Senate UI bill authored by Senators Nickles and Clinton at the end of the 107th Congress. The 108th Congress eventually extended the program in early January, but it failed to include additional assistance for one million unemployed workers who had exhausted all of their unemployment benefits and remained out of work.

[2] Primus, Wendell, Jessica Goldberg, and Isaac Shapiro. *New Unemployment Insurance Proposal Neglects One Million Jobless Workers Who Have Run Out of Federal Unemployment Benefits.* Center on Budget and Policy Priorities: January 14, 2003.

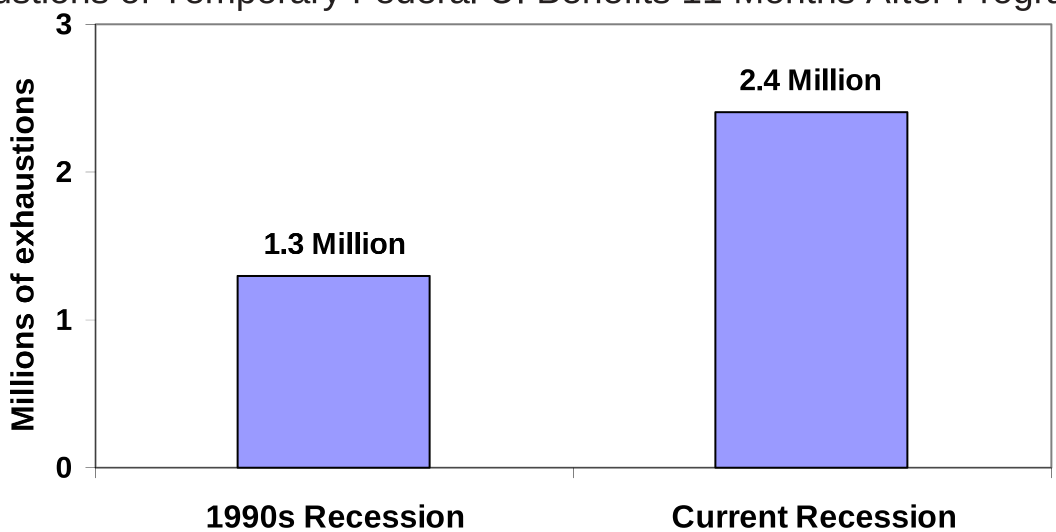
[3] JEC Democrats, "Debunking the Argument that Unemployment Is Not High Enough to Justify Extending UI Benefits," *Economic Policy Brief*, March 2003

[4] Chart 3 has been adjusted for the size of the labor force and references a 12-month moving average. A 12-month moving average is used here because exhaustion data are not seasonally adjusted, and use of a 12-month moving average is the simplest way to analyze exhaustion trends while avoiding distortions caused by seasonal variations in employment. Primus, Wendell and Jessica Goldberg. *A Response to Arguments Against Extending the Temporary Federal Unemployment*

Chart 4

UI Exhaustions Higher Now Than In Last Recession Due to Less Generous Program

Exhaustions of Temporary Federal UI Benefits 11 Months After Program Start



Notes: 1990s recession exhaustions are adjusted to reflect increases in the size of the labor force.
Source: Center on Budget and Policy Priorities

Benefits Program. Center on Budget and Policy Priorities: December 10, 2002.

[5] The one million number is smaller than the cumulative number of workers who have exhausted temporary federal benefits because many of these 2.4 million workers have found jobs.

[6] Primus, Wendell, Jessica Goldberg, and Isaac Shapiro. *New Unemployment Insurance Proposal Neglects One Million Jobless Workers Who Have Run Out of Federal Unemployment Benefits.* Center on Budget and Policy Priorities: Revised January 14, 2003.

[7] Orszag, Peter. *Unemployment Insurance as Economic Stimulus*. Center on Budget and Policy Priorities: November 15, 2001.

Orszag, Peter. *Strengthening Unemployment Benefits Would Be Much More Effective in Saving Jobs than Most Corporate Tax Cuts.* Center on Budget and Policy Priorities: November 14, 2001.

[8] See the Center on Budget and Policy Priorities, *Issues Raised by President's Proposed Personal Reemployment Accounts*, February 12, 2003 and National Employment Law Project, *What the Research Says About Personal Reemployment Accounts — A Policy That Fails the Long-Term Unemployed*, Washington, DC February 2003 for greater detail.

Personal Reemployment Accounts (PRAs)

In January, the Administration proposed $3.6 billion to set up Personal Reemployment Accounts (PRAs) of up to $3,000 each for the long-term unemployed. States are to target PRAs to those workers most likely to exhaust their UI benefits. PRAs provide a cash bonus to workers who find a job within 13 weeks, but the funds can also be used to purchase training, for job search support services, and for child care.

The primary criticism of PRAs is that they are based on the assumption that people are not looking as hard as they could be for a new job (and thus need the bonus as incentive). But reemployment incentives do not create jobs, and therefore, can not solve what is the crux of the problem in the labor market: too many unemployed people and too few jobs available to them.

Nor are PRAs a substitute for the income support provided by TEUC. PRAs do not guarantee all unemployed workers the ability to purchase basic necessities when UI benefits end. In fact, according to the Administration's own calculations only one in six long-term unemployed workers will receive a PRA. All long-term unemployed workers who are unemployed through no fault of their own need the income support provided by extended UI benefits.

Another significant problem with PRAs is that they combine both a training function and a cash bonus in a single account, which leads to two contradictory incentives. The prospect of a bonus provides pressure to get a job quickly when few are available and to postpone spending any funds on training in hopes of getting to keep the full cash bonus.

Another problem with PRAs is that they will require recipients to pay for training and job search services that have been free at the One-Stop Career Centers managing the accounts. They may also result in windfalls for workers who would have found a new job quickly anyway. Finally, it may be difficult to implement PRAs quickly enough to help in the current weak labor market.[8]

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