Economic Policy Brief

Joint Economic Committee – Democrats
Representative Pete Stark (D-CA)

(Updated March 2003) February 2003

Why is There No Unemployment Insurance Extension in the Administration's Budget?

The Budget of the United States should encompass all of the policies that the Administration believes should be funded, particularly those policies that impact the current fiscal year (2003) and the next fiscal year (2004). The Administration budget does not propose to extend unemployment insurance (UI) assistance beyond the extension enacted in early January, nor does it provide any assistance for the one million workers who have exhausted all of their unemployment benefits and still have not found work.[1] A new program – personal reemployment accounts – would receive $3.6 billion in funding but that would only assist about one in six unemployed workers who exhaust regular state UI benefits.[2] Because a UI extension is not included in the Administration's budget, it follows that the Administration does not believe an extension is crucial.

Two logical possibilities exist for why the Administration did not propose to extend unemployment benefits. The first is that the Administration expects the unemployment rate to decline quickly and therefore an extension of UI benefits is not necessary. The second is that while unemployment will decline slowly, an extension of temporary federal unemployment insurance benefits is such a low priority that the Administration will only consider agreeing to an extension if Congress agrees to other parts of their economic package.

The first possibility is not supported by the Administration's own economic assumptions. The unemployment rate, currently at 6.0 percent, is not expected to drop significantly in the upcoming months. The Administration projects the unemployment rate to average 5.7 percent in 2003 (and 5.6 percent in the fourth quarter of the year). The unemployment rate projected by Congressional Budget Office (CBO) for the calendar year 2003 is slightly higher – 5.9 percent. The fact the Administration proposed an "Economic Growth Package" would also suggest that the economy is experiencing difficulty. Furthermore, even if the unemployment rate falls, long-term unemployment will probably fall more slowly, causing laid-off workers great difficulty in maintaining their homes and providing for their families over the long-term.

The second possibility is that personal reemployment accounts and other reasons from the Administration's perspective make an extension of UI benefits no longer necessary or a low priority even if unemployment does not fall. Why the Administration believes an extension should not happen is hard to fathom since unemployment insurance is probably the best economic stimulus money can buy.[3]

This recession was following very closely the pattern of the 1990s jobless recovery. Private sector job loss as a percentage change in the number of private sector jobs had declined at the same rate **(Chart 1).** However, during the last three 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. The exhaustions of regular state UI benefits have increased in this recession as much as in the last recession **(Chart 2)**. And the exhaustion rate (the percentage of workers who started to receive state UI benefits in June and who now are exhausting state UI benefits) for December has reached an all-time high — over 50 percent. These data show that this recession is as serious or perhaps more serious than the last recession.

Extensions of temporary federal benefits should continue until regular state UI exhaustions have declined significantly **(Chart 2).**[4] 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 January 2003 totaled 381,000; an increase of about 14,000 or 4%, relative to January 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.

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.

Previous UI Extensions: An Historical Perspective

In the 1990-91 recession, the federal UI program lasted 30 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 to the current situation where only three states are classified as "high unemployment states."

Today, less than two years after the recession began, 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 3)**. 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).

Regular state program UI exhaustions are continuing to climb but are likely to plateau sometime over the next six months 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.[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]

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 December, some $11 billion has been spent and even with the extension of benefits that was enacted in early January 2003, only $17 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.

Do the Unemployed Need Additional Incentives to Find a Job?

One possible answer to why the Administration did not include additional UI assistance in their budget is that they believe that the unemployed are not looking as hard for work as they should be. To some extent, their personal reemployment accounts are based on this notion – that unemployed workers need additional incentives or bonuses to find work. However, the economic research that is sometimes cited to support this view is not applicable during a recession. Federal Reserve Chairman Alan Greenspan believes that during periods of job decline the unemployed do not need additional incentives.

Under questioning by Senator Paul Sarbanes (D-MD) at a hearing before the Joint Economic Committee on Nov. 13, 2002, Chairman Greenspan said that "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."

Conclusion

The President's proposed budget for fiscal year 2004 does not provide additional weeks of assistance for unemployed workers who will be exhausting regular state benefits after May 2003. Nor does the Administration 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, indicating that they simply view a further extension as a low priority. While the Administration proposes large tax cuts which 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 should follow the example of the first Bush Administration and continue to extend federal UI benefits.

Footnotes

[1] 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.

[2] Goldberg, Jessica and Wendell Primus. *Issues Raised By President's Proposed Personal Reemployment Accounts.* Center on Budget and Policy Priorities: January 31, 2003.

[3] 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.

[4] Chart 2 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.

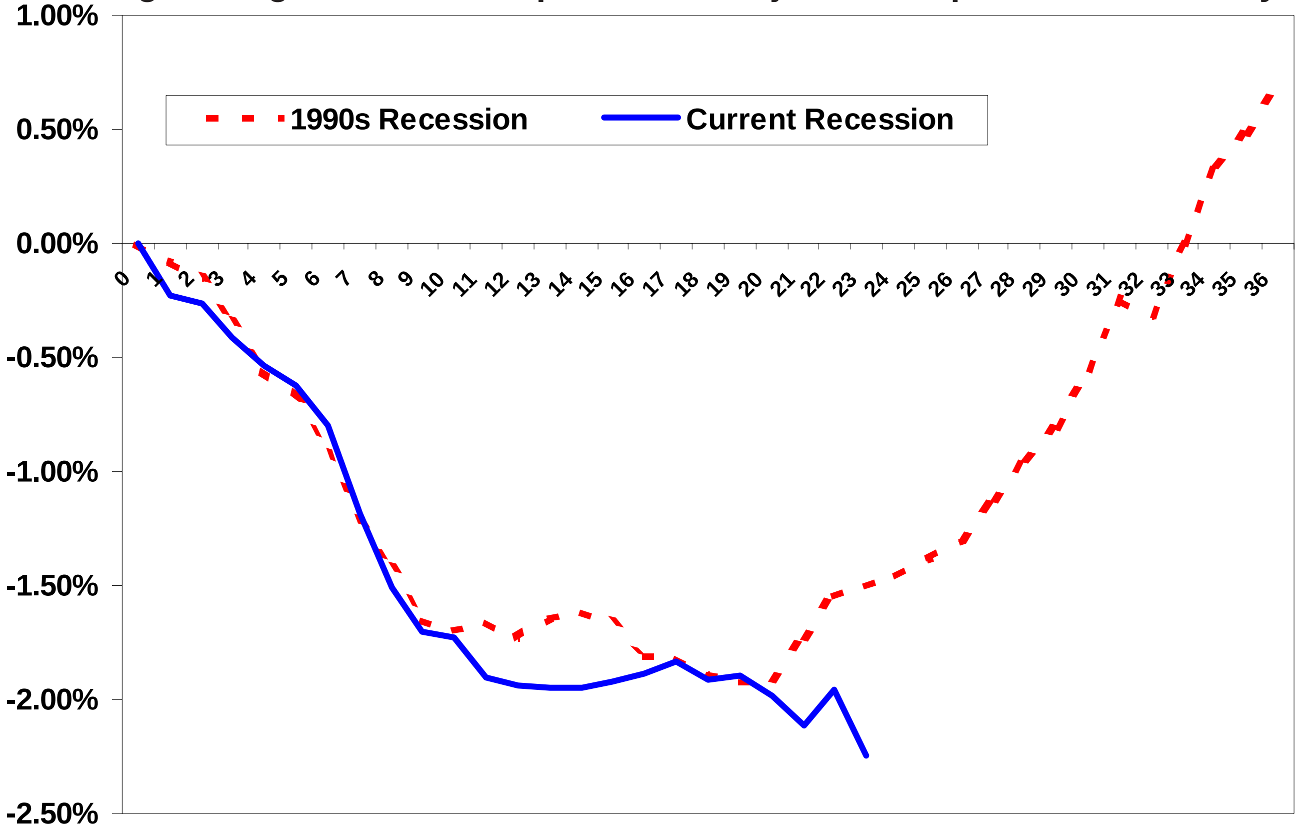
A Response to Arguments Against Extending the Temporary Federal Unemployment Benefits Program. Center on Budget and Policy Priorities: December 10, 2002.

[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.

Chart 1
Current Recession Begins to Appear More Serious Than Jobless Recovery of the 1990s

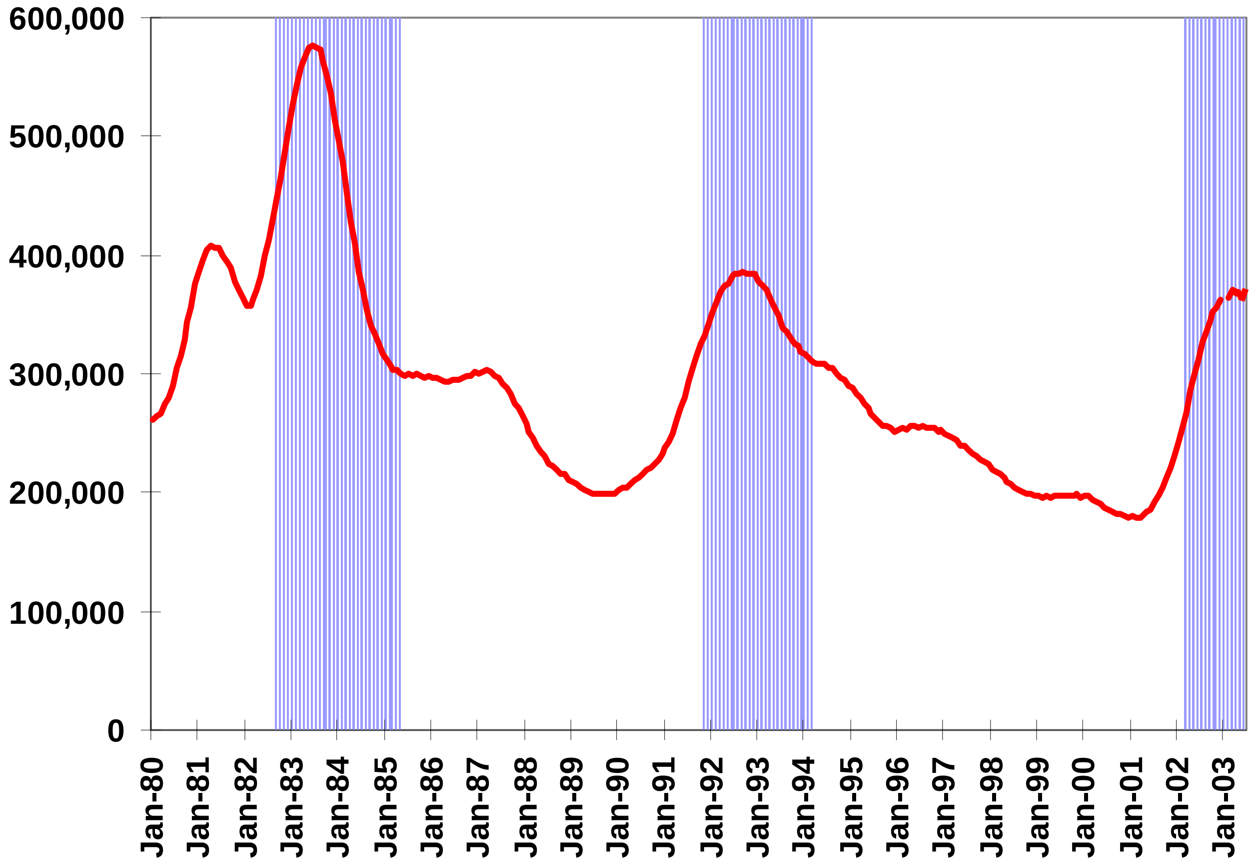
(Percentage change in number of private sector jobs since peak of business cycle)



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

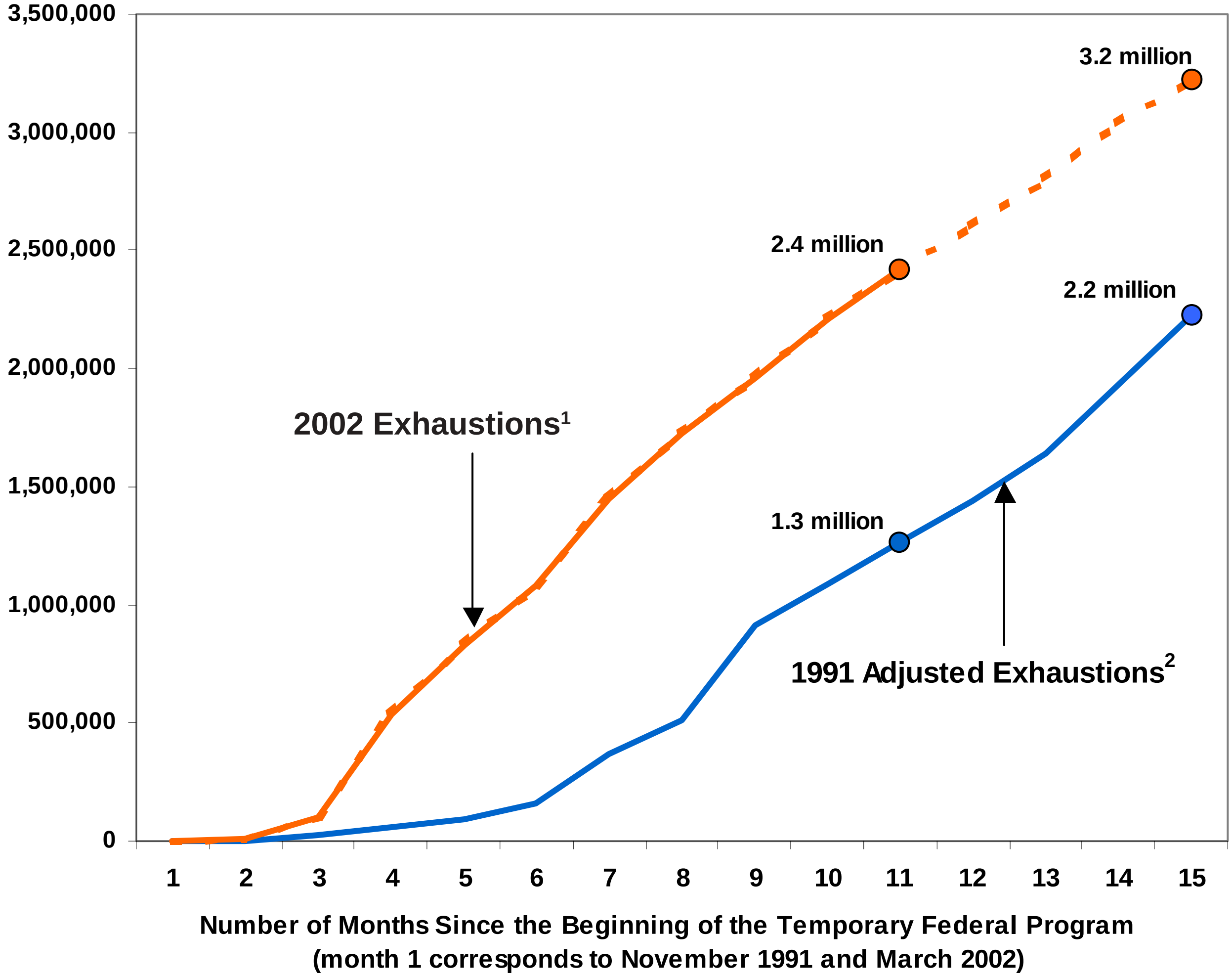
Chart 2
Previous Temporary Federal UI Benefit Programs Ended After Steep Declines in Exhaustions

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 January, 2003.

Chart 3
Cumulative Exhaustions of Temporary Federal UI Benefits Enacted in 1991 and 2002



Notes: [1] Dotted line indicates projected exhaustions.

[2] 1992 Exhaustions are adjusted to reflect increases in the size of the labor force.

Source: Center on Budget and Policy Priorities

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