A GOOD JOB IS HARD TO FIND:

Evidence for Extending Unemployment Insurance Benefits Already Exists

A REPORT BY THE JOINT ECONOMIC COMMITTEE MAJORITY STAFF
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Executive Summary

The most recent employment report by the Bureau of Labor Statistics showed widespread weakness in the labor market. The unemployment rate rose sharply in March and, for the first time since 2003, there was a third straight month of falling employment. Unemployment typically only rises like this when we are in a recession. Job losses are no longer contained in sectors associated with the housing bust, but are now spreading throughout the economy. The current labor market slowdown comes on the heels of the weakest jobs recovery in over seventy years.

Evidence is mounting that labor market conditions are already as bad as or worse than when Unemployment Insurance (UI) benefits were extended in previous recessions:

- Long-term unemployment is at recession levels and already higher than when Congress extended UI benefits in the 2001 and 1990-91 recessions. Currently, there are 1.3 million unemployed workers who have been out of work and searching for a new job for at least six months.
- The number of unemployed claiming UI benefits recently rose above 400,000 per week, a level at which economists typically consider the labor market to be in a recession.
- The share of the U.S. population with a job never fully recovered from the 2001 recession and is lower now than it was last time UI benefits were extended.
- The share and number of UI beneficiaries exhausting their benefits is already higher than at the beginning of the 2001 and 1990-91 recessions.[1] More than one-in-three unemployed workers (35.6 percent) exhausted their UI benefits last quarter.
- Over 1.3 million workers will exhaust their UI benefits between January and June 2008 and 10 states and the District of Columbia have exhaustion rates higher than 40 percent (FL, NJ, CA, NE, AZ, NM, NC, CO, LA and IN).

Many indications exist that the unemployed are having difficultly finding a job. Currently, there are 4.2 million unemployed workers who lost their jobs involuntarily and the unemployment rate would be close to twice as large if we included everyone who wanted, but did not have, a full-time job.

Families are ending this recovery having made very little economic progress. The 2000s recovery will most likely be the first in many decades where at the end of the recovery, real family income is $1,000 lower than it was at the last economic peak. Families have very little savings and, on top of this, the collapse of the housing market and the credit crunch mean that families are increasingly unable to tap into home equity or sell their home to move to find better employment opportunities. Recent estimates are that, depending on the severity of the recession, families may lose an additional $2,000 to nearly $4,000 in income per year over the current recession.

Economists agree that, dollar for dollar, UI benefits are one of the most effective means of economic stimulus. Extending UI benefits now will not only help working families maintain income stability in the face of a challenging labor market, but may also help many to avoid having to foreclose on their homes in a market already glutted with unsold houses. Extending UI benefits is one the most effective forms of economic stimulus and given the potentially protracted nature of the current economic downturn, there is no reason to wait to extend benefits.

Introduction

The March employment report showed widespread weakness in the labor market including, for the first time since 2003, a third straight month of falling employment. After months of job losses being contained in sectors associated with the housing bust, the economy is now showing losses in a wide array of industries. At the same time, unemployment is rising and jobs are harder to find. The labor market is trending downwards: in testimony before the Joint Economic Committee on April 4, 2008, the Commissioner of the Bureau of Labor Statistics reported that "labor market conditions started to weaken more than a year ago."[2] Based on the labor market data, the slowdown in economic growth for the fourth quarter, falling home prices, and the ensuing crisis in the credit markets, most economists now believe we are in a recession.

Conditions have deteriorated to the extent that on March 13, 2008, the *Wall Street Journal* reported that 71 percent of economic forecasters now believe that we are in a recession and about half of them think it could be worse than the one in 2001.[3] A day later, Prof. Martin Feldstein, President of the National Bureau of Economic Research, said that we are in a recession that could be "substantially more severe" than recent ones.[4] Even Federal Reserve Chairman Ben Bernanke, in testimony before the JEC on April 2, said that a recession is now possible. He said it is now "likely that real gross domestic product (GDP) will not grow much, if at all, over the first half of 2008 and could even contract slightly."

Earlier this year, Congress passed and the President signed an economic stimulus package designed to forestall an economic downturn. This package included rebates to more than 130 million Americans of up to $600 per individual and $1,200 per married couple, plus $300 per child, increases in the loan limits for large ("jumbo") mortgages, and an acceleration of the depreciation allowed for small businesses.

Extending UI has been the common policy response to signs of recession. Congress has extended benefits in each of the last five economic recessions and this recession should be no exception. Typically, an extension allows unemployed workers to claim benefits for an additional 13 weeks—or 26 weeks in high unemployment states—beyond the current 26 weeks maximum. Extending UI would clearly provide much-needed assistance to the unemployed, while also providing targeted stimulus to the economy.

Even so, some are questioning whether it is too early in this economic downturn to extend UI. Some economists have pointed to the relatively low unemployment rate as an indication that extending UI benefits is unnecessary at this time.

Extensive evidence already exists that unemployed workers are having a difficult time finding a new job. Although the unemployment rate is still relatively low in historical terms, this should not be viewed as the only—or even most important—indicator of the tightness of the labor market. Other labor market data—in particular, the relatively large share of the unemployed who are currently long-term unemployed, the rate of people who are exhausting their UI benefits, and the relatively low employment rate—provide a more important indication of how well millions of workers are faring in today's labor market. Given economists' concerns about the potential severity of this recession, combined with the fact that this will be the first recovery in decades in which family income did not recover before the next recession began, the evidence for extending UI benefits already exists.

Unemployment is beginning to rise and one-in-six unemployed workers has been out of work for at least six months

In March, the official unemployment rate rose to 5.1 percent and an additional 434,000 workers joined the ranks of the unemployed. The unemployment rate's one-month increase of three-tenths of a percent was relatively large; unless the economy is entering a labor market recession, the unemployment rate tends to move slowly, typically by a statistically insignificant one-tenth of a percent in a given month. Given the downward trends in the labor market, this recent rise in unemployment may not just be a one-month statistical aberration.

There are many other indicators of problems in the labor market. The BLS's March employment report showed that of the total unemployed, 1.3 million—or one-in-six (16.7 percent)—were "long-term unemployed," that is, out of work and searching for a new job for at least six months (27 weeks or longer).[5] The mean duration for unemployment spells was 16.2 weeks.[6] The six-month mark is important because this is the maximum number of weeks for collecting regular UI benefits.[7]

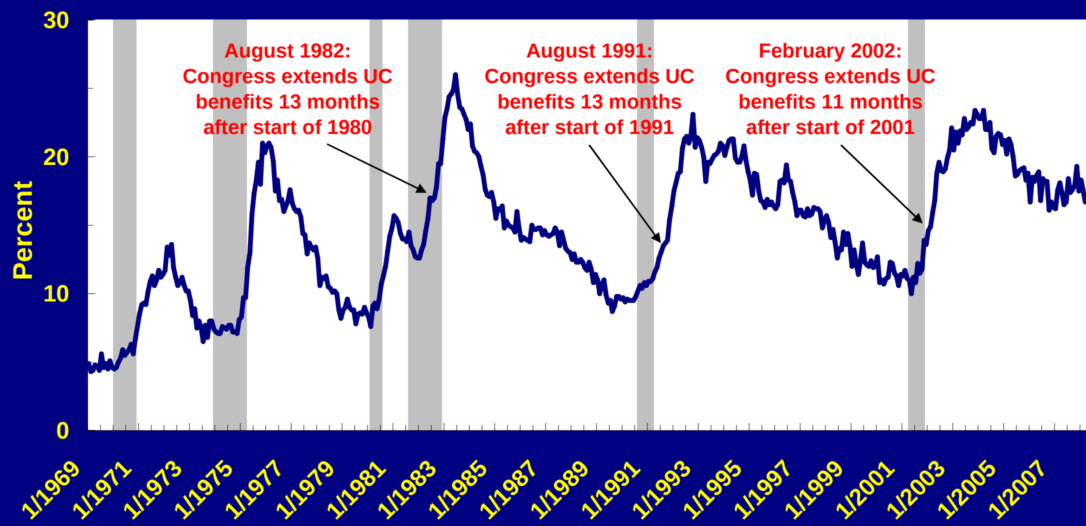
The share of the unemployed who are long-term unemployed is much higher now than at the beginning of the 2001 and 1990-91 recessions (Table 1 and Figure 1).[8] In March 2001 and in July 1990, there were nearly 700,000 long-term unemployed, just over half as many as there are today. In March 2001 and July 1990, the share of the unemployed who were long-term unemployed was roughly one-in-ten (11.1 percent and 9.8 percent respectively), compared to nearly one-in-six today.[9]

Table 1. Long-term Unemployed

	Jul-90	Mar-01	Mar-08
Share of the unemployed who are long-term	9.8%	11.1%	16.7%
Number of the unemployed who are long-term	688,000	696,000	1,282,000

Source: Bureau of Labor Statistics
Notes: The long-term unemployed are people who are out-of-work and seeking employment for at least 26 weeks.

Figure 1. Share of the Unemployed Who Have Been Out of Work for Six Months or More
January 1969-March 2008



Notes: UC stands for unemployment compensation. The gray areas indicate periods of recession as defined by the National Bureau of Economic Research.
Sources: Bureau of Labor Statistics, Congressional Research Service.

Workers who are long-term unemployed are disproportionately likely to be older and African American. Younger workers are less likely to be long-term unemployed and have shorter median weeks of unemployment. In 2007, only 17.2 percent of workers aged 25 to 34 were long-term unemployed, compared to 23.6 percent among workers aged 45 to 54.[10]

More unemployed workers are exhausting their UI benefits

In the last week of March, the number of new applications for UI benefits rose above 400,000, a level that economists typically associate with a recession. At the same time, there are now greater numbers of unemployed workers exhausting their UI benefits. Regular UI benefits are typically cut off after 26 weeks and those who receive UI benefits for six months without finding a new job "exhaust" their UI benefits.[11]

According to the Department of Labor, over a third of those on UI in the fourth quarter of 2007 (35.6 percent) exhausted their benefits, leaving 665,000 unemployed workers without access to UI even though they have been unable to find a job (Table 2).[12] This is higher than the share and number of UI beneficiaries exhausting their benefits at the beginning of the 2001 and 1990-91 recessions.

Table 2. UI Recipients Exhausting Benefits

	1990 Q3	2001 Q1	2007 Q4
Share of UI recipients exhausting benefits	28%	32%	36%
Number of UI recipients exhausting benefits	565,478	595,090	664,751

Source: Department of Labor

Based on fourth quarter UI exhaustion rates, over 1.3 million workers will exhaust their UI benefits between January and June 2008. Many states have relatively high rates of exhaustions: the highest is the District of Columbia where 54.5 percent of those on UI exhaust their benefits, and a total of ten states (and the Virgin Islands and Puerto Rico) have exhaustion rates higher than 40 percent (FL, NJ, CA, NE, AZ, NM, NC, CO, LA and IN).[13]

Employment is low—and falling—and jobs are hard to find

Federal Reserve Chairman Ben Bernanke noted that the appropriate indicator of the health of the labor market was perhaps not the unemployment rate, but the employment rate.[14] During the 2000s economic expansion, the employment rate—the share of the U.S. population with a job—never fully recovered to its pre-recession peak of 64.7 percent (Figure 2). If the employment rate had recovered to its pre-recession peak, there would have been 4.9 million more people at work in March 2008. The lower employment rate indicates overall weakness in the labor market, which is not necessarily being picked up by the unemployment rate.

Over the past year, the employment rate has been falling. The employment rate hit a high of 63.4 percent fifteen months ago and has since fallen to 62.6 percent (Figure 2). The employment rate is lower now than it was at the beginning of the 2001 recession and lower than in early 2002 when Congress last extended UI benefits to the long-term unemployed.

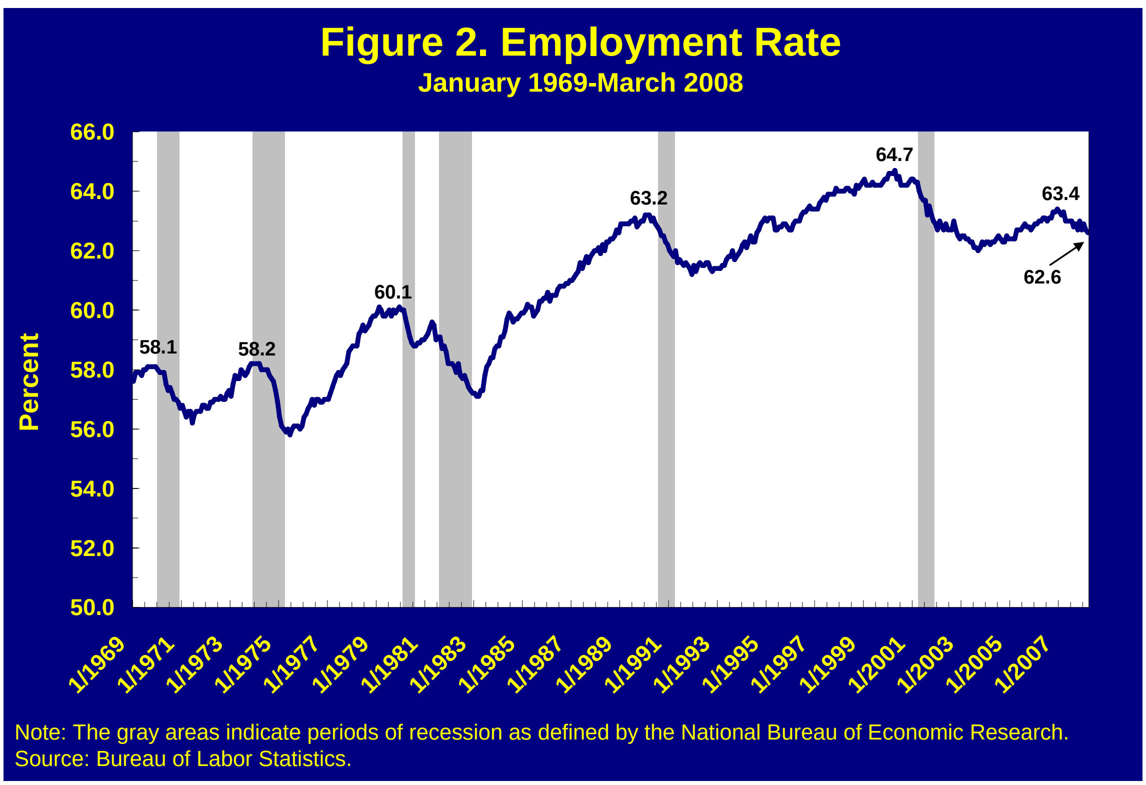
There are also many other indications that people are being laid off and having a hard time finding a new job or having to take a part-time job instead of a full-time one. Half of the unemployed (53.7 percent), equal to 4.2 million workers, lost their job involuntarily.[15] One-fifth (20.2 percent) of those employed part-time report that they would prefer full-time work, but this was all they could find.[16] The unemployment rate would have been 9.1 percent if it included those who worked part-time for economic reasons as well as those who were marginally attached to the labor force.[17]

The weak labor market is hardest on particular sub-groups of the population. In particular, teen workers have already seen sharp declines in employment and rising unemployment.

Do the Unemployed Not Seek Employment?

Some economists argue that extending UI will only increase the duration of unemployment spells as workers who would otherwise find a new job instead choose to continue to receive benefits.[18] Recent research rebuts this hypothesis: David Card, Raj Chetty, and Andrea Weber find that the way unemployment spells are measured affects the spike in exits as the benefit deadline approaches. When measured correctly, the modest spike in re-employment rates implies that most job seekers do not wait until their UI benefits are exhausted to return to work: less than one percent of jobless spells have an ending date that is manipulated to coincide with the expiration of UI benefits.[19]

Further, economists argue that the economic research that is sometimes cited to support this view is not applicable during a recession. Under questioning by Senator Paul Sarbanes at a hearing before the Joint Economic Committee on November 13, 2002, former Federal Reserve 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."



UI is an effective economic stimulus

Temporarily boosting unemployment insurance – through either increasing benefit levels or extending benefits to the long-term unemployed – is among the most effective forms of economic stimulus because it targets resources directly toward people who will spend the money.

Prior research confirms that extending UI is an effective economic stimulus:

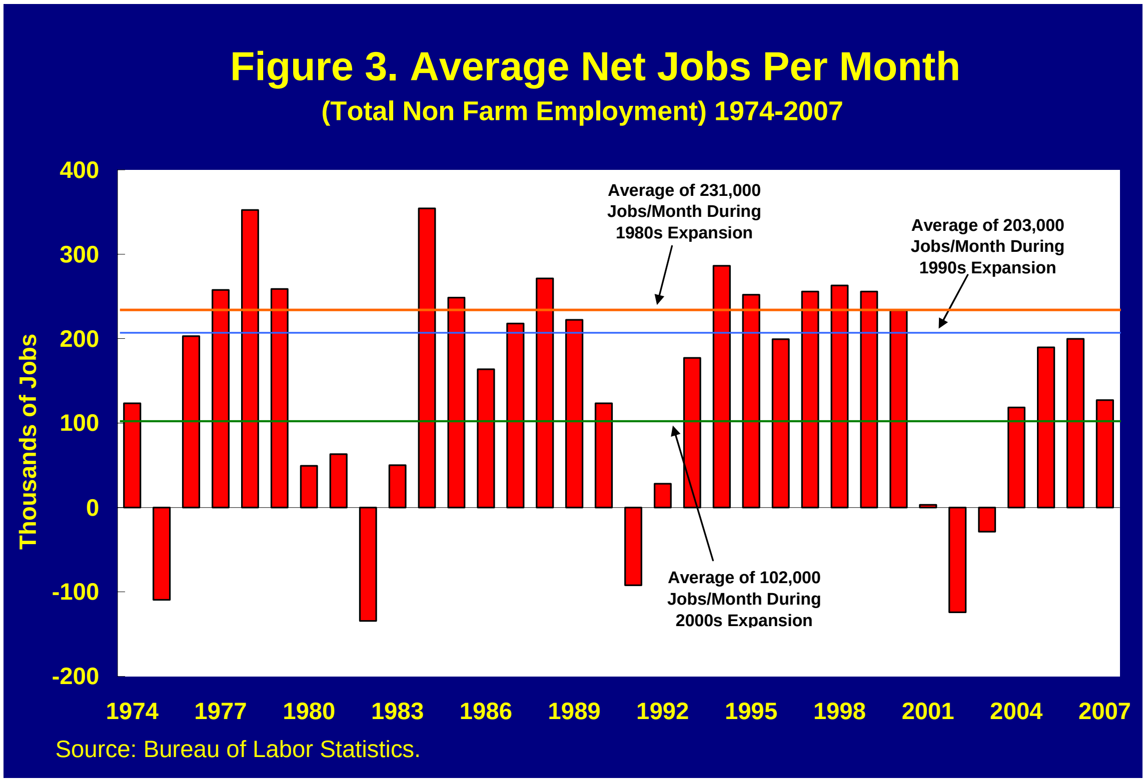
- Mark Zandi of economy.com estimated that each additional dollar of expanded unemployment insurance benefits leads to $1.64 increased in aggregate demand, much more than other stimulus proposals.[20]
- The Department of Labor found that each dollar of benefits increased GDP by $2.15 and that at their peak, UI benefits saved an average of 130,000 jobs annually.[21]
- Peter Orszag, Director of the Congressional Budget Office, recently testified that increasing the value or duration of UI benefits would be among the most effective economic stimulus plans.[22]

Lackluster Recovery Leaves Families Less Able to Deal with Unemployment

Extending UI benefits to the long-term unemployed is especially important in today's economy because the lackluster recovery has left families less prepared than in recent decades for a bout of unemployment.

Weak Labor Market Recovery

The current labor market slowdown comes on the heels of the weakest job recovery in over seventy years. Over the economic recoveries of the 1980s and 1990s, the economy added 234,000 and 205,000 jobs per month on average. However, over the 2000s recovery, the economy added half as many jobs (102,000) each month on average (Figure 3).



Wage growth has also been lackluster over the 2000s economic recovery. From the peak in 1989 through the next peak in 2000, real weekly full-time earnings grew by 7.7 percent, over twenty times as much as they grew from the peak in 2000 through 2007, the likely peak year of the 2000 recovery. Inflation-adjusted wages and weekly earnings are now both lower than they were over a year and a half ago and median household income is nearly $1,000 lower than it was in 2000.

Given recent trends in wages and employment, the 2000s economic recovery likely will be the first one in many decades where family income does not fully recover from the prior recession. This means that in 2007, inflation-adjusted median family income will remain lower than it was in 2000. On top of this low baseline, families will see income losses over the course of any recession. Given trends in prior recessions, recent estimates are that by 2010, families will see a $2,000 decline in income (in 2006 dollars) if we have a mild-to-moderate recession or $3,750 decline (in 2006 dollars) if we have a severe recession.[23]

Little Savings, Falling Home Values

For many families, this is the worst of times to be facing unemployment. The national savings rate is close to zero and the typical family does not have sufficient savings to get them through an extended period of unemployment. Without UI benefits, families experiencing extended unemployment may end up losing their homes, only adding to the glut of unsold homes and further deepening the housing crisis. Extending UI benefits to the long-term unemployed would not only help these individual families, but will be good for the overall economy.[24]

For many families, tapping into home equity or moving to find better employment opportunities are becoming increasingly limited due to the collapse of the housing market. As home values decline across the nation, homeowners are increasingly unable to borrow against their home equity during a period of unemployment. Further, the decline in prices and the high numbers of homes already on the market means that if a family is forced to sell their home due to unemployment, they will be doing so in the worst seller's market in decades. Many may not even be able to sell their homes: a recent *New York Times* article points to an emerging trend that homeowners looking to move to places with better employment opportunities may be trapped by an unsold home.[25]

Besides cash savings and home equity, the other source of available savings for families is a 401(k) plan, but even these have seen losses in the past year. There is already evidence that families are tapping into their retirement savings in higher numbers.

Options for expanding unemployment compensation

Many unemployed workers are eligible for unemployment compensation when they lose their job. The program is funded by a payroll tax on employers. UI is an "automatic stabilizer," because it provides cash income to workers who are no longer employed. When the unemployment rate rises, the program spends more money, but when unemployment falls, the program's payments fall.

There are three specific ways to expand unemployment insurance:

- Provide extended benefits to workers whose regular unemployment compensation has expired;
- Supplement the amount of benefits paid to unemployment compensation recipients; and
- Modernize the UI system to cover more unemployed workers, including more part-time and low-wage workers.

Extending UI benefits to the long-term unemployed will directly help the workers who are exhausting their UI benefits. The key to this policy is to target benefits to workers who are having an exceptionally difficult time finding reemployment. There are two mechanisms to extend UI benefits to the long-term unemployed and both should be enacted. First, Congress should extend benefits for an additional 13 weeks to those exhausting their benefits without finding a new job, as Congress typically has done during recessions. Second, Congress should take steps to improve the process by which extended benefits automatically kick-in.[26] This would extend UI benefits in states with the weakest labor markets and effectively target benefits to those most in need. The trigger mechanism should extend an additional 13 weeks of benefits to the unemployed in states where the insured unemployment rate is 25 percent higher than it was in the prior two years.[27] If this trigger were in effect now, eight states would be on extended benefit program (AZ, CA, FL, GA, ID, MD, NV, and UT) and VA would be right on the cusp. These states overlap significantly with those experiencing the highest foreclosure rates as well as those with the highest rate of UI exhaustions.[28]

Supplementing the amount of benefits will put more money in the hands of unemployed workers who need income and will spend it immediately. Nationwide, benefits are typically equal to just over one-third of pre-unemployment wages. There are two ways to supplement benefits: Congress could raise the benefit amount or cover some or all of UI recipients' COBRA co-payments for health insurance coverage. COBRA, the 1985 Consolidated Omnibus Budget Reconciliation Act, allows workers and their families to continue on their previous employer's group health insurance plan for at least 18 months after a job loss, but the worker is responsible for the full cost of the coverage. Many workers find that COBRA co-payments eat up a large share of their UI benefits, but they need COBRA to ensure that they and their families have access to health insurance.

Modernizing the UI system to cover more part-time and low-wage workers would increase the counter-cyclical nature of the UI program by providing valuable benefits to workers who need the income. Eligibility rules for the unemployment insurance system are set at the state level, but typically, to be eligible a person must have worked four out of the last five calendar quarters, met minimum earnings and hours requirements, and have lost their job through no fault of their own (i.e., they cannot have been fired). Nationwide, less than four-in-ten unemployed workers actually receive unemployment compensation.[29] The problems with eligibility stem from the design of the program. Since the 1930s when the program was created, there have been shifts in the labor market and the economy that have left some workers out of the system that have been paying into it. This now means that many women do not qualify for UI, even when they have lost their job through no fault of their own. All states should be given the financial incentives and tools necessary to achieve the best innovations in the system as called for in the Unemployment Insurance Modernization Act; this would go a long way towards ensuring that more of the unemployed are eligible for UI.

Conclusion

Given the weakness in the labor market, an extension of UI benefits should now be a top priority for policymakers. A consensus is emerging that a recession is virtually unavoidable, so Congress and the Administration should continue to focus on economic stimulus, as well as bolster the incomes of those directly affected by the downturn and help unemployed families continue to maintain their spending on basic living expenses. Extending UI benefits will provide much-needed relief to unemployed families, provide economic stimulus, and may help already-strapped families avoid defaulting on their mortgages.

End Notes

[1]UI benefits are typically available for 26 weeks and unemployed workers who receive benefits for 26 weeks and still have not found a job leave the UI system having "exhausted" their benefits.
[2] Keith Hall, "Commissioner's Statement on the Employment Situation News Release," in Testimony before the Congressional Joint Economic Committee, April 4, 2008.
[3] Phil Izzo and Sudeep Reddy, "Most Economists in Survey Say Recession Is Here," *Wall Street Journal* March 13, 2008.
[4] Ros Krasny, "U.S. faces severe recession: NBER's Feldstein," Reuters, March 14, 2008.
[5] Bureau of Labor Statistics, Employment Situation, Table A-9.
[6] Bureau of Labor Statistics, Employment Situation, Table A-9.
[7] Less than 40 percent of the unemployed actually receive UI.
[8] The greater share of the unemployed who are long-term unemployed reflects a long-term shift in the economy. Academic research finds that this is due to survey changes and the passage of baby boomers into their prime working years; after accounting for these, the remainder of the increase in long-term unemployment is concentrated among women, who are now more likely to remain in the labor force rather than exit upon becoming unemployed. See, for example, Katherine Abraham and Robert Shimer, 2001. "Changes in Unemployment Duration and Labor Force Attachment," Cambridge, MA: National Bureau of Economic Research, Working Paper No. 8513.
[9] Bureau of Labor Statistics, Employment Situation, Table A-9.
[10] U.S. Department of Labor, Bureau of Labor Statistics, Household Data Annual Averages, Table 31.
[11] U.S. Department of Labor, Employment and Workforce Training, Unemployment Insurance Data Summary.
[12] U.S. Department of Labor, Unemployment Insurance Data Summary.
[13] U.S. Department of Labor, Unemployment Insurance Data Summary.
[14] Ben S. Bernanke, "Monetary Policy and the Economic Outlook: 2004," Remarks at the Meetings of the American Economic Association, San Diego, California, January 4, 2004.
< http://www.federalreserve.gov/boarddocs/speeches/2004/20040104/default.htm>.
[15] Bureau of Labor Statistics, Employment Situation, Table A-8.
[16] Bureau of Labor Statistics, Employment Situation, Table A-5.
[17] Bureau of Labor Statistics, Employment Situation, Table A-12.
[18] Robert Moffitt, "The Temporary Assistance for Needy Families Program," Cambridge, MA: National Bureau of Economic Research, Working Paper No. 8749, February 2002. Available at https://www.nber.org/papers/w8749
[19] David Card, Raj Chetty, and Andrea Weber, "The Spike at Benefit Exhaustion: Leaving the Unemployment System or Starting a New Job?" Cambridge, MA: National Bureau of Economic Research, Working Paper No. 12893, February 2007.
[20] The tax rebates, for example, are estimated to only add $1.26 in aggregate demand for every dollar spend. Mark M. Zandi, "Washington Throws the Economy a Rope," Dismal Scientist, January 22, 2008.
< http://www.economy.com/dismal/article_free.asp?cid=102598>
[21] Chimerine, et al., 1999. "Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness Over three Decades," U.S. Department of Labor, Unemployment Insurance Occasional Paper 99-8.
[22] Congressional Budget Office Testimony of Peter Orszag on Options for Responding to the Short-Term Economic Weakness before the Committee on Finance, US Senate, January 22, 2009. www.cbo.gov/ftpdocs/89xx/doc8932/01-22-TestimonyEconStimulus.pdf
[23] John Schmitt and Dean Baker, "What We're In For: Projected Impact of the Next Recession," Washington, DC: Center for Economic and Policy Research, January, 2008.
[24] Jonathan Gruber, "The Consumption Smoothing Benefits of Unemployment Insurance." American Economic Review, Vo. 87, No. 1, March 1997, 192-205.
[25] Louis Uchitelle, "Unsold Homes Tie Down Would Be Transplants," *New York Times*, April 3, 2008.
[26] There is already in place a federal-state Extended Benefits program that extends 13 weeks of benefits to the long-term unemployed, with the cost split between the state and federal governments, however the program does not work effectively. The Extended Benefits program is triggered when a state's 13-week average insured unemployment rate reaches 5 percent and this is a 120 percent increase from the same 13-week period in the last two years. Most states have also adopted a second trigger when 13-week average insured unemployment rate reaches 6 percent. In either case, weekly benefits are identical to those in the regular UI program.
[27] Jeffrey Wenger and Matthew Walters, "Why triggers fail (and what to do about it): An examination of the unemployment insurance extended benefits program," *Journal of Policy Analysis and Management*, Vol. 25, Issue 30.

[28] Note that because the trigger is based on the proportional increase in the insured unemployment rate, it will not affect states witih low UI coverage rates differently than those with high coverage rates.
[29] Data from the Department of Labor, Unemployment Insurance Data Summary: http://workforcesecurity.doleta.gov/unemploy/content/data.asp.