



# JOINT ECONOMIC COMMITTEE DEMOCRATS



REPRESENTATIVE PETE STARK (D-CA) – SENIOR DEMOCRAT

ECONOMIC POLICY BRIEF

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## NO COMPASSION FOR THE UNEMPLOYED DESPITE WEAK LABOR MARKET

Despite presiding over the longest jobless recovery since President Hoover, President Bush fails to recommend any extension of the temporary federal unemployment insurance (UI) program in his budget. The current program expired for workers exhausting regular unemployment benefits after the week of December 20, 2003.

All the President seems to want to extend are his tax cuts, which primarily benefit higher-income Americans. While promising that these tax cuts would come out of budget surpluses, they now must be financed entirely by borrowing. Yet he is unwilling to recommend additional UI benefits from an unemployment insurance trust fund with \$17 billion of assets which was paid for by workers, enough to fund the program for many months.

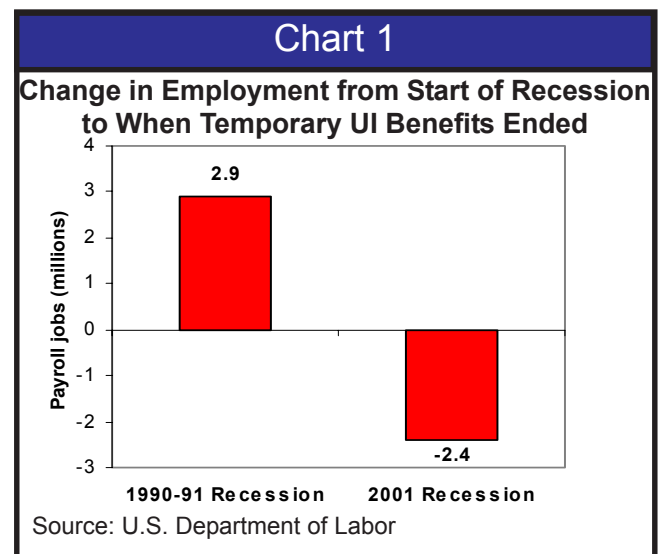
There are several strong arguments that the labor market is weak. Arguments for discontinuing the program are unpersuasive.

### Still Too Little Job Creation

By way of historical comparison, the temporary federal unemployment insurance program enacted after the 1990-91 recession did not end until 2.9 million jobs had been created. Today, total jobs are still 2.4 million below their pre-recession level, yet the President wants to end the program. (**Chart 1**)

The 1991-94 temporary UI program lasted 27 months and continued for 11 months after the jobs deficit was erased. The current program lasted only 22 months, and the percentage of jobs lost since

the recession began was 1.8 percent in December 2003. That is still higher than the peak of 1.4 percent reached in the 1990-91 recession.



### Still Too Many Long-Term Unemployed

Perhaps the best economic indicator of whether a UI extension is needed is the number of long-term unemployed — the number of unemployed workers who exhaust their regular state unemployment benefits, which typically last 26 weeks.

A recent study projects that the 375,000 workers who exhausted regular benefits this January without qualifying for additional assistance is a record (data back to 1973).<sup>1</sup> The study also projects that over the first six months of 2004 the number of unemployed workers exhausting their regular UI benefits without being able to receive additional assistance will be a record high (in absolute numbers) compared with all previous years.

When the temporary UI program ended after the 1990-91 recession, exhaustion levels were 50 percent higher than at the start of the recession. Today, exhaustion levels are still over 100 percent higher than when the 2001 recession began.

As further evidence of too many long-term unemployed, the number unemployed 26 weeks or longer has nearly tripled since the recession began based on the household survey. In addition, the share of the unemployed who have been unemployed 26 weeks or longer has remained above 20 percent for the longest consecutive period in 20 years.

### **Myths About Why Another Extension is Unnecessary**

Opponents of continuing temporary UI benefits make several arguments. But these do not stand up to analysis.

*The economic recovery is underway and unemployment is falling.* Yes, the economy is growing, but the labor market remains weak. In past recessions, temporary UI benefits remained in place until exhaustion levels declined considerably. The unemployed are still having difficulty finding work, through no fault of their own.

*The unemployment rate is much lower now than it was when the temporary program ended after the 1990-91 recession.* In the 1990s expansion, the unemployment rate fell to as low as 3.8 percent, well below the 5.2 percent unemployment rate reached before the beginning of the 1990 recession. The December 2003 unemployment rate of 5.7 percent is the same as it was when the current program began and considerably greater than it was when the recession began. When the temporary program ended after the 1990-91 recession, unemployment had fallen considerably from its peak. Today's unemployment rate has fallen by only about half as much. Furthermore, the better measure of when to end the temporary program is

improvement in long-term unemployment or exhaustion levels, and those have barely budged from their peak levels since the 2001 recession began.

*Another extension of benefits would create unemployment.* A recent press account suggests that the unemployment rate would be raised substantially if UI were extended.<sup>2</sup> However, that estimate which purports to be derived from earlier research uses a suspect methodology that misapplies and misrepresents the implications of that earlier work.<sup>3</sup> Even if unemployment is lengthened somewhat for those individuals with UI benefits because they can search longer to find a job that best matches their abilities, many other unemployed (approximately 50 percent of the unemployed do not receive UI benefits) could take those jobs in today's economy such that the overall unemployment rate is not affected significantly. There simply is no credible study which suggests that an extension of benefits would raise unemployment rates appreciably.

### **Conclusion**

During the next 6 months, approximately 2 million workers will be affected by the President's failure to extend benefits. Studies have shown that 13 weeks of benefits averaging \$260 dollars per week are crucial for helping these families meet their budgets and keeping them out of poverty. Both the current record of job creation and the record number of long-term unemployed without additional assistance strongly suggest that the federal temporary UI program should be extended.

### **Endnotes**

<sup>1</sup> Shapiro, Isaac, "Unmet Need Hits Record Level for the Unemployed," Center on Budget and Policy Priorities, January 29, 2004.

<sup>2</sup> Bartlett, Bruce, "Jobless Benefits Shrinkage," *Washington Times*, December 17, 2003.

<sup>3</sup> Katz, Lawrence and Bruce Meyer, "The Impact of Potential Duration of Unemployment Benefits on the Duration of Unemployment," *Journal of Public Economics*, 1990.