February 12, 2008

Federal Jobless Benefits Will Stimulate the Economy While Helping Over Three Million Jobless Families Who Will Run Out of State Benefits This Year

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Working families are bracing for major layoffs amid growing signs that the nation may be heading toward a serious recession. Despite their compelling concerns and strong evidence that federal jobless benefits will immediately stimulate the economy, the U.S. Senate recently came one vote short of the 60 votes needed to pass an economic stimulus package (Economic Stimulus Act of 2008) that included a 13-week federal extension of unemployment benefits. That leaves an estimated three million workers without any additional federal support when they run out of their 26 weeks of state jobless benefits this year.

Now, the attention shifts to Congressional efforts to promptly enact separate legislation to extend federal jobless benefits to help boost the economy. This paper makes the case for an immediate extension of jobless benefits and federal reforms to modernize the unemployment insurance program. It provides new state estimates of the number of workers who will exhaust their state unemployment benefits this year as well as a rebuttal to the argument of Bush Administration officials that unemployment has not reached high enough levels compared to prior recessions to justify an extension of jobless benefits. Underscoring the harshness of the downturn on long-established workers and the consequences of inaction by Congress for moderate-income families, the paper also finds that the unemployed include a disproportionately large number of older workers who are looking for work for longer periods of time in today's struggling economy.

Is the Economy Heading Toward a Serious Recession?

The telltale signs of a recession are now impossible to ignore given the significant increase in the numbers of unemployed, a lack of consumer confidence which has seriously undermined consumer spending, and a slowdown in economic growth as measured by the Gross Domestic Product (GDP). The service sector became the latest casualty of the economy when the index of non-manufacturing business activity fell last week to its lowest level since October 2001.[1] According to economist Mark Zandi of Moody's Economy.com, five states, including California, are already in recession, and they account for one-forth of the nation's GDP.[2]

What distinguishes today's economic downturn from prior recessions is the devastating housing and credit crisis caused by the sub-prime mortgage crisis and the record increase in energy prices. The continued uncertainty of these multiple forces threatens to send the economy

[1] "Recession Fears Intensify: Service-Sector Index Hits Six-Year Low; Further Rate Cuts Seen as Dow Drops 2.9%," *Wall Street Journal* (February 6, 2008).
[2] Zandi, "Washington Throws the Economy a Rope" (January 22, 2008) (available on-line at http://www.economy.com/home/article_ds.asp?cid=102598).

into a longer and more severe recession compared to the prior economic downturns. That is the conclusion of two economists, Professors Carmen Reinhardt and Kenneth Rogoff, who argue that the current crisis may well be as bad as any of the five most severe recessions to hit an industrialized country since World War II.[3]

The Beneficial Economic Impact of Jobless Benefits

Unemployment benefits provide one the most effective means available to federal policy makers to immediately stimulate the economy and help prevent a more serious recession. In fact, a major study of past recessions found that each dollar of unemployment insurance benefits boosts the nation's GDP by $2.15, while also preserving over 130,000 jobs.[4]

Given the potential for a prolonged economic decline, Congress should not repeat the mistake it made during the last recession when it waited until three months <u>after</u> the downturn officially ended to enact the Temporary Extension of Unemployment Compensation (TEUC) program. The belated response in 2002 compromised the stimulative effect of the TEUC program, while another three million workers ran out of state unemployment benefits before the federal program was enacted. Indeed, the job market rebounded far more slowly, and more weakly, after the last recession than during any other business cycle during the past 60 years.

As Mark Zandi recently concluded, unemployment benefits sustain consumer confidence and consumer spending, which is the backbone of today's economy. "The benefit of extending unemployment insurance goes beyond simply providing financial aid for the jobless, to more broadly shoring up household confidence. Nothing is more psychologically debilitating, even to those still employed, than watching unemployed friends and relatives lose benefits."[5] Mr. Zandi thus attributes part of the serious slump in consumer confidence following the 1991 recession to the failure of President Bush, Sr., to immediately extend jobless benefits.[6]

In addition, UI benefits sustain families during hard times by substantially reducing the likelihood that they will fall into poverty and helping them make the challenging transition to quality jobs with health care and other benefits.[7] Of special significance to today's housing crisis,

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[3] Reinhart, Rogoff, "Is the 2007 U.S. Sub-Prime Crisis So Different: An International Historical Comparison (January 14, 2008 draft); "A Recession, If It Comes, Could be Worse Than Those of Recent Past," *Wall Street Journal* (January 21, 2008).

[4] Chimerine, et al. (1999) "Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness Over Three Decades," U.S. Dept. of Labor, Unemployment Insurance Occasional Paper 99-8. Of special relevance to today's economy, the report also concludes that, "widening inequality in come distribution, rising consumer debt, continuing downsizing and layoffs, and growing needs for worker retraining, to name only some of the factors that make the need for UI as a countercyclical safety net as great today as ever before." Id. at i.

[5] Zandi, "Washington Throws the Economy a Rope" (January 22, 2008).

[6] According to Mr. Zandi, "The slump in consumer confidence in late 1991, after the 1990-91 recession, may well have been due in part to the first Bush administration's initial opposition to extending UI benefits for hundreds of thousands of workers. The administration ultimately acceded and benefits were extended, but only after confidence had waned. The fledging recovery sputtered and the political damage extended through the 1992 presidential election." Id.

[7] Stettner, Emsellem, "Unemployment Insurance is Vital to Workers, Employers and the Struggling Economy" (National Employment Law Project: December 5, 2002). Boushey, Wenger, "Finding the Better Fit: Receiving

one major study found that unemployment benefits also reduce the chances that a worker will be forced to sell the family home by almost one-half, while also preventing a potential 23 percent drop in spending on rental or mortgage payments.[8]

The New Realities of Long-Term Unemployment

Treasury Secretary Henry Paulson, the Administration's chief economic spokesman, parted ways with the nation's leading economists by opposing an extension of jobless benefits to help stimulate the economy. According to Mr. Paulson, "My apprehension is that with unemployment at 4.9 percent, to extend unemployment benefits would be unprecedented."[9] The President's Chairman of the Council of Economic Advisors, Edward Lazear, went even further and argued that long-term unemployment is not high enough relative to the 1990s to justify extended jobless benefits.[10]

The Administration's position conspicuously ignores the severity of long-term unemployment today compared to prior recessions, which underscores the need for immediate action by Congress to extend jobless benefits to help avoid another serious recession.

- In March 2001, when the last recession began, the average worker was unemployed for 12.8 weeks before finding new work. In January 2008, the average duration of unemployment was up to 17.5 weeks.

- In January 2008, there were almost 1.4 million workers still unemployed after actively looking for work for more than six months. That is more than twice the number who were long-term unemployed in both March 2001 (696,000) and in July 1990 when the prior recession began (688,000).

- In January 2008, the long-term unemployed accounted for 18.3 percent of all jobless workers, compared to 11.1 percent in March 2001. In July 1990, 11.9 percent of the unemployed were long-term jobless, and the proportion did not reach today's rate until 21 months later (in March 1992).

- The latest Labor Department reports (3rd Quarter, 2007) indicate that 36 percent of all workers collecting state unemployment exhaust their maximum 26 weeks of benefits. That compares with 32 percent in March 2001, when the last recession began, and 28 percent in July 1990.

Unemployment Insurance Increases Likelihood of Re-Employment with Health Insurance" (Economic Policy Institute: April 14, 2005).

[8] Gruber, "Unemployment Insurance, Consumption Smoothing, and Private Insurance: Evidence from the PSID and CEX," Advisory Council on Unemployment Compensation Background Papers, Vol. I (1995).

[9] "Official Urges Senate to Pass Stimulus Plan," *Bloomberg News* (February 6, 2008).

[10] At a White House press briefing, Mr. Lazear stated that, "in terms of the proportion of individuals who are facing long-term unemployment, it's about the same as it was in the mid-90s, and actually lower than throughout most of the past few years." White House Press Briefing, dated February 11, 2008.

The growing number of unemployed families who are looking for work for longer periods of time are not limited to any particular demographic group, although they are more often older, white and male workers. As set forth in Table 1 below, men account for 57 percent of the long-term unemployed (compared to 54 percent of all unemployed). While workers 45 and older make up 27 percent of all the nation's unemployed, they represent 37 percent of the long-term jobless.

Given the continued loss of good-paying manufacturing jobs, manufacturing workers also represent a larger share of the long-term unemployed (12 percent compared to 10 percent in the total population of unemployed workers). However, workers employed in other industries are significantly represented as well, especially including those employed in professional and business services (12 percent), wholesale and retail (15 percent), and educational and health services (12 percent).

Table 1: Demographic Characteristics of the Long-Term Jobless (2006 - 2007)

	Characteristics of All Unemployed	Characteristics of the Long-Term Unemployed
Gender		
Female	46%	43%
Male	54%	57%
Race*		
Black	21%	28%
Hispanic	16%	13%
Other	3%	4%
White	72%	65%
Age		
16 - 24	33%	23%
25-44	40%	41%
45 and over	27%	37%
Education		
Less than High School	26%	23%
High School Graduate	35%	37%
Some College	25%	24%
Bachelor's Degree or More	14%	16%
Industry**		
Construction	11%	9%
Manufacturing	10%	12%
Wholesale and retail trade	15%	15%
Financial activities	4%	5%
Professional and business services	12%	12%
Educational and health services	12%	12%
Leisure and hospitality	13%	12%

** Due to overlap in the Hispanic, Black, and White categories, the total exceeds 100 percent.*
*** The total for industries listed is less than 100 percent because those four categories with statistically insignificant numbers were omitted.*

Source: U.S. Bureau of Labor Statistics (monthly data totaled for 2006-2007).

Also significant, the latest Labor Department figures indicate that unemployment is rising fast in the states, especially among some of the nation's largest states. In December 2007, the unemployment rate increased in 36 states over the past year. Unemployment rates rose by more than 20 percent over the past year in 10 states due in large part to the sub-prime mortgage crisis (California, Connecticut, Florida, Hawaii, Illinois, Montana, New York, Nevada, Utah, Virginia). In addition, seven states have exceeded 6 percent unemployment, including several large states (California, Ohio, and Michigan).

Proposals to Extend Jobless Benefits & Modernize the Unemployment Insurance Program

If Congress and the White House do not promptly extend jobless benefits, an estimated three million workers will run out of their state unemployment benefits this year (Table 3). As it becomes more difficult to find work during the year, the numbers are expected to grow significantly. During the six months from January to June 2008, 1.3 million workers will exhaust their state unemployment benefits, and that number will likely increase to 1.7 million workers from July to December 2008.[11]

During each of the past five recessions, Congress has enacted an extension of federal jobless benefits. In 2002, Congress extended jobless benefits by 13 weeks for all states, while providing an extra 13 weeks of federal support to certain states with unemployment rates that exceeded 6.5 percent.[12] The extension that was recently defeated in the U.S. Senate (Economic Stimulus Act of 2008) was nearly identical to the March 2002 TEUC program. In contrast, prior federal extensions (including the 1991 and 1975 extension programs) provided 20 to 26 weeks of extended benefits to all states, with extra weeks of benefits often available to states with especially high levels of joblessness.

Responding to the new realities of long-term unemployment, legislation has been introduced in both the House and Senate to extend jobless benefits beyond the limited 13 weeks provided during the last recession. Senator Edward Kennedy recently introduced the Emergency Unemployment Compensation Extension Act of 2008 (S. 2544), which provides 20 weeks of extended benefits to workers in all states, plus an extra 13 weeks for states with unemployment levels exceeding 6.0 percent (averaged over three months). In addition, the bill provides an extra $50 a week in federal extended benefits to help families cope with the rising costs of fuel, food

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[11] The January to June 2008 estimate in Table 3 takes into account the number of people who were paid unemployment benefits from July to December 2007, multiplied by the latest reported state "exhaustion" rate (3rd Quarter 2007). The estimates for July to December 2008 assume a 26 percent increase in unemployment insurance recipients -- the same rate of increase experienced during the 2001 recession -- multiplied by the latest reported state "exhaustion" rate (3rd Quarter 2007).

[12] The TEUC the program was limited to states with unemployment rates above 6.5 percent, plus the state had to have experienced a significant increase of unemployment in either of the past two years. As a result, while 14 states qualified for the full 26 weeks of TEUC benefits, they did so only for a few months before they "triggered off" the program because their unemployment rate did not continue to rise as required by the 2002 federal law. National Employment Law Project, "Nation's Highest Unemployment States Face Major Cuts in Unemployment Benefits Due to Flawed Extension Program," (November 4, 2003).

and other basic necessities and the limited unemployment benefits provided by most states (which now average just $285 a week).[13]

In the House of Representatives, Congressman Jim McDermott (the chairmen of the subcommittee with jurisdiction over the unemployment insurance program) also introduced a bill to extend federal jobless benefits (H.R. 4934). Congressman McDermott's bill would provide 26 weeks of extended unemployment benefits to all states, in addition to a $50 supplement in weekly unemployment benefits. In contrast to the Senate bill, it does not provide extra weeks of benefits to high unemployment states. Both the House and Senate bills significantly improve upon the TEUC program enacted in 2002 by accounting for the increase in long-term unemployment and the rising costs of fuel and other basic necessities.

In addition to extending jobless benefits, Congress should address the serious gaps in the unemployment program that deny benefits to thousands of hard-working families, especially low-wage and part-time workers. Today, only 36 percent of unemployed workers collect unemployment benefits due mostly to outdated state eligibility rules. According to a recent study by the U.S. Government Accountability Office, low-wage workers are now twice as likely to become unemployed, but they are one-third as likely as higher wage workers to receive unemployment benefits.[14] Over a decade ago, a bi-partisan Congressionally-chartered commission recommended state and federal reforms to accommodate these concerns.[15]

Incorporating many of the federal commission's recommendations and the model state reforms already adopted by half the states, the U.S. House of Representatives recently passed legislation providing incentive grants for states to modernize their unemployment programs (H.R. 3920, Title IV). A similar measure, the Unemployment Insurance Modernization Act, has strong bi-partisan support in the Senate (S. 1981). If enacted into law and adopted by the states, an estimated 500,000 low-wage and part-time workers will qualify for unemployment benefits under the bills.[16] The legislation is also paid for from the federal unemployment trust funds by extending an unemployment surtax that has been in place for over 30 years. If swiftly enacted into law, the legislation will go a long way to modernize the unemployment program and help stabilize the economy.

[13] For example, gas prices have increased 80 cents from a year ago (averaging $3.10 a gallon), and the costs of a gallon of resident heating fuel has risen 98 cents (to $3.40) in just one year. USDA also predicts that food prices will experience their largest increases in years, as retailers pass on higher energy costs to consumers.
[14] U.S. Government Accountability Office, *Unemployment Insurance: Receipt of Benefits Has Declined, With Continued Disparities for Low-Wage and Part-Time Workers* (September 18, 2007).
[15] Advisory Council on Unemployment Compensation, Collected Findings and Recommendations: 1994-1996 (1996).
[16] National Employment Law Project, "The New Congress Proposes $7 Billion in Incentive Payments for the State to Modernize the Unemployment Insurance Program," (July 25, 2007).

Table 2: Percent and Number Unemployed by State (December 2007)

State	Unemployment Rate (Dec. 2007)	Percent Increase in Unemployment Rate (2006 - 2007)	Number Unemployed in Thousands (Dec. 2007)	Percent Increase in Number Unemployed (2006 - 2007)
Alabama	4.0%	8.1%	89.8	8.5%
Alaska	6.5%	-3.0%	23	-1.3%
Arizona	4.7%	14.6%	143.8	15.9%
Arkansas	5.9%	9.3%	81	10.5%
California	6.1%	27.1%	1,126.30	29.3%
Colorado	4.5%	12.5%	121.5	14.1%
Connecticut	5.0%	22.0%	94.9	24.2%
Delaware	3.8%	15.2%	17	15.6%
D.C.	6.1%	-1.6%	19.7	1.0%
Florida	4.7%	42.4%	440.8	48.7%
Georgia	4.8%	4.3%	236.5	8.2%
Hawaii	3.2%	60.0%	20.8	61.2%
Idaho	3.0%	-6.3%	23	-5.0%
Illinois	5.5%	34.1%	372	35.1%
Indiana	4.6%	-4.2%	148.4	-6.3%
Iowa	4.0%	14.3%	67.8	17.9%
Kansas	4.4%	-2.2%	65	-1.1%
Kentucky	5.7%	5.6%	116.7	5.3%
Louisiana	4.2%	0.0%	85.1	0.1%
Maine	5.1%	10.9%	36.8	11.2%
Maryland	3.8%	-2.6%	114.8	-2.0%
Massachusetts	4.5%	-13.5%	151.4	-15.1%
Michigan	7.6%	5.6%	383	4.6%
Minnesota	4.9%	16.7%	145.6	16.8%
Mississippi	6.8%	-1.4%	92.2	1.7%
Missouri	5.5%	14.6%	169.2	14.7%
Montana	3.6%	24.1%	18.2	29.1%
Nebraska	3.2%	14.3%	31.5	15.4%
Nevada	5.8%	34.9%	79.7	39.3%
New Hampshire	3.6%	2.9%	26.6	2.7%
New Jersey	4.5%	4.7%	202.8	3.7%
New Mexico	3.7%	-2.6%	34.6	-2.5%
New York	4.9%	19.5%	468.3	19.3%
North Carolina	5.0%	2.0%	225	2.0%
North Dakota	3.3%	3.1%	12.1	6.1%
Ohio	6.0%	7.1%	360.7	7.9%
Oklahoma	4.5%	12.5%	77.2	10.8%
Oregon	5.6%	3.7%	110.3	7.5%
Pennsylvania	4.7%	0.0%	297.3	0.1%
Rhode Island	5.5%	7.8%	31.8	8.2%
South Carolina	6.6%	1.5%	142.8	1.8%
South Dakota	3.0%	-6.3%	13.3	-4.3%
Tennessee	5.3%	8.2%	163.4	10.7%
Texas	4.5%	-4.3%	524.2	-3.6%
Utah	3.2%	28.0%	43.7	28.5%
Vermont	4.0%	5.3%	14.3	4.4%
Virginia	3.5%	20.7%	142.2	22.0%
Washington	4.8%	-4.0%	166	0.1%
West Virginia	4.9%	-2.0%	40	-0.7%
Wisconsin	5.0%	2.0%	154.2	2.2%
Wyoming	3.1%	3.3%	9	4.7%

Source: US Department of Labor.

Table 3: Estimated Number of Workers Who Will Exhaust State Jobless Benefits in 2008

State	Estimated Number of Workers Who Will Exhaust State Benefits (January to June 2008)	Estimated Number of Workers Who Will Exhaust State Benefits (July to December 2008)	Total
Alabama	12,510	17,533	30,043
Alaska	6,913	9,775	16,688
Arizona	18,846	20,713	39,559
Arkansas	16,505	17,918	34,423
California	218,496	285,756	504,252
Colorado	12,996	19,165	32,161
Connecticut	17,250	27,301	44,551
Delaware	3,776	4,927	8,703
D.C.	4,769	5,357	10,126
Florida	86,092	85,941	172,033
Georgia	39,826	45,644	85,470
Hawaii	2,654	3,122	5,776
Idaho	5,151	7,561	12,712
Illinois	57,093	84,209	141,302
Indiana	33,598	51,380	84,978
Iowa	8,736	15,518	24,254
Kansas	7,754	12,324	20,078
Kentucky	11,458	15,603	27,061
Louisiana	11,140	13,171	24,311
Maine	4,019	7,565	11,584
Maryland	15,848	20,972	36,820
Massachusetts	34,275	52,821	87,096
Michigan	72,136	95,207	167,343
Minnesota	19,237	34,468	53,705
Mississippi	7,819	10,592	18,411
Missouri	17,727	29,927	47,654
Montana	2,996	4,653	7,649
Nebraska	6,009	10,046	16,055
Nevada	15,645	16,188	31,833
New Hampshire	1,848	2,982	4,830
New Jersey	66,415	89,617	156,032
New Mexico	6,142	8,274	14,416
New York	84,866	107,493	192,359
North Carolina	48,245	64,853	113,098
North Dakota	1,562	2,945	4,507
Ohio	35,320	54,049	89,369
Oklahoma	7,515	10,479	17,994
Oregon	20,695	26,094	46,789
Pennsylvania	58,976	94,434	153,410
Rhode Island	7,038	10,748	17,786
South Carolina	21,960	26,591	48,551
South Dakota	304	672	976
Tennessee	22,037	33,386	55,423
Texas	49,104	68,018	117,122
Utah	4,029	4,882	8,911
Vermont	1,763	3,000	4,763
Virginia	17,076	25,242	42,318
Washington	18,253	21,648	39,901
West Virginia	4,179	7,274	11,453
Wisconsin	32,401	47,800	80,201
Wyoming	1,147	1,932	3,079
Total	1,282,149	1,737,770	3,019,919

Source: Estimates prepared by the National Employment Law Project (NELP) based on U.S. Department of Labor Employment and Training Administration data.