



# Committee on Ways and Means

Representative Charles B. Rangel - Chairman

Issue Brief – April 8, 2008

## Downturn in the Economy Clearly Justifies Extending Unemployment Benefits Now

The current rate of long-term unemployment, the rapidly deteriorating labor market, and a variety of other indicators all lead to the same conclusion – Congress should quickly extend unemployment benefits. Without such an extension, millions of workers will be denied critical assistance and the economy will be denied quick-acting stimulus.

### Long-Term Unemployment Much Higher Now Than at the Onset of Recent Recessions

One of the most compelling reasons to extend unemployment benefits is the current high number of long-term unemployed workers compared to the beginning of past recessions.

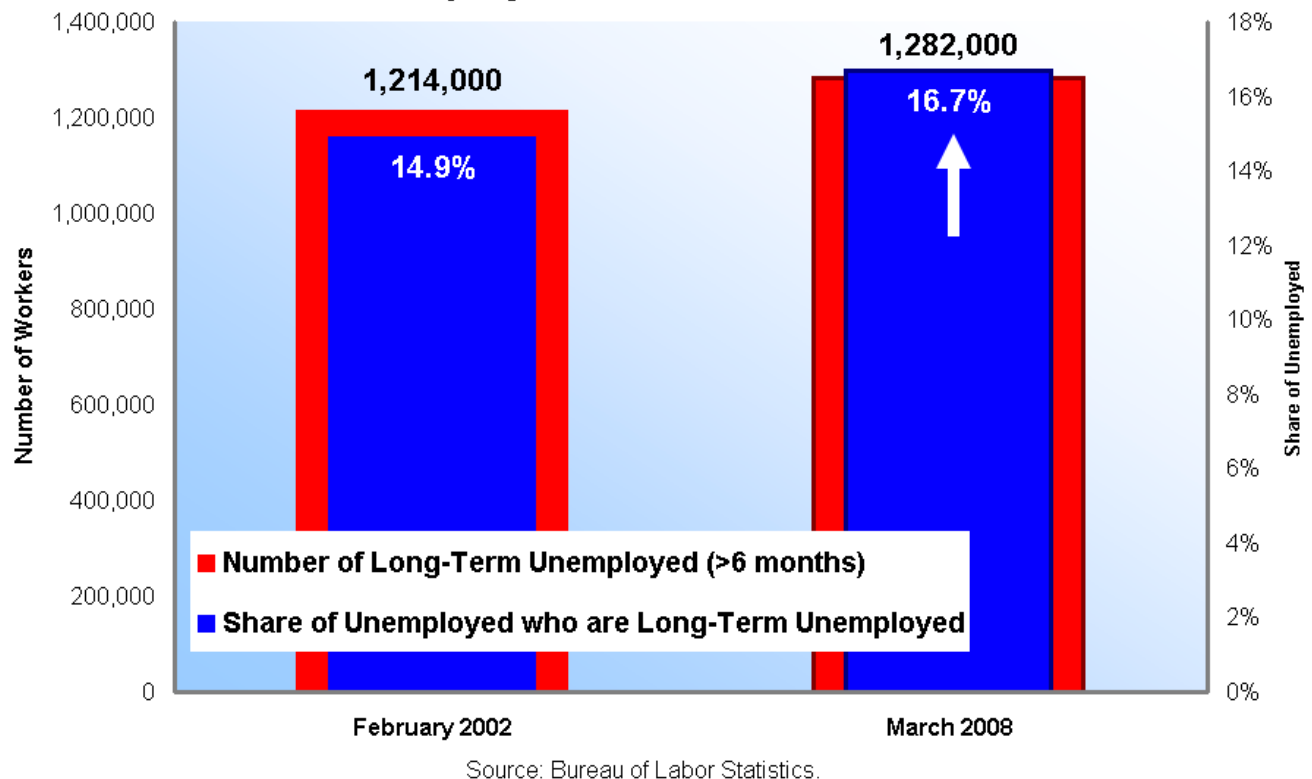
At the onset of the 2001 recession, 696,000 workers were unemployed for more than six months, representing about 11 percent of all unemployed workers. Similarly, at the start of the 1990 recession, the long-term unemployed comprised 9.8 percent of all jobless workers.

Today, nearly 1.3 million workers have been unemployed for more than six months (representing nearly 17 percent of all unemployed workers). Not only is the number of long-term unemployed nearly twice as high compared to the beginning of the last recession, but it is also higher than indicated at the time Congress finally extended unemployment benefits in 2002 (see chart on following page).

Furthermore, the percentage of workers exhausting UI benefits (36%) is higher today than at the beginning of any of the past *five* recessions. Given this high exhaustion rate, the Congressional Budget Office (CBO) assumes that roughly 3.5 million Americans will run out of unemployment benefits before finding work this year.<sup>1</sup>

Without unemployment benefits, families with a long-term UI recipient are twice as likely to fall into poverty, according to a CBO analysis. In fact, CBO found that UI “has succeeded in preventing temporary poverty for a significant fraction of long-term UI recipients.”<sup>2</sup>

## Long-Term Unemployment Worse Now Than When Congress Last Extended Unemployment Insurance Benefits



### Congress Routinely Extends UI Benefits During Downturns

When economic conditions deteriorate over a period of months, Congress has routinely provided extended unemployment benefits to dislocated workers during the last five decades. Such federally-funded extensions have occurred in 1958, 1961, 1972, 1975, 1982, 1991, and 2002. Sometimes these extensions have been delayed until long after the beginning of a recession – a mistake Congress should avoid during the current economic downturn. Congress should not wait for a recession to be officially declared before acting to help unemployed workers.

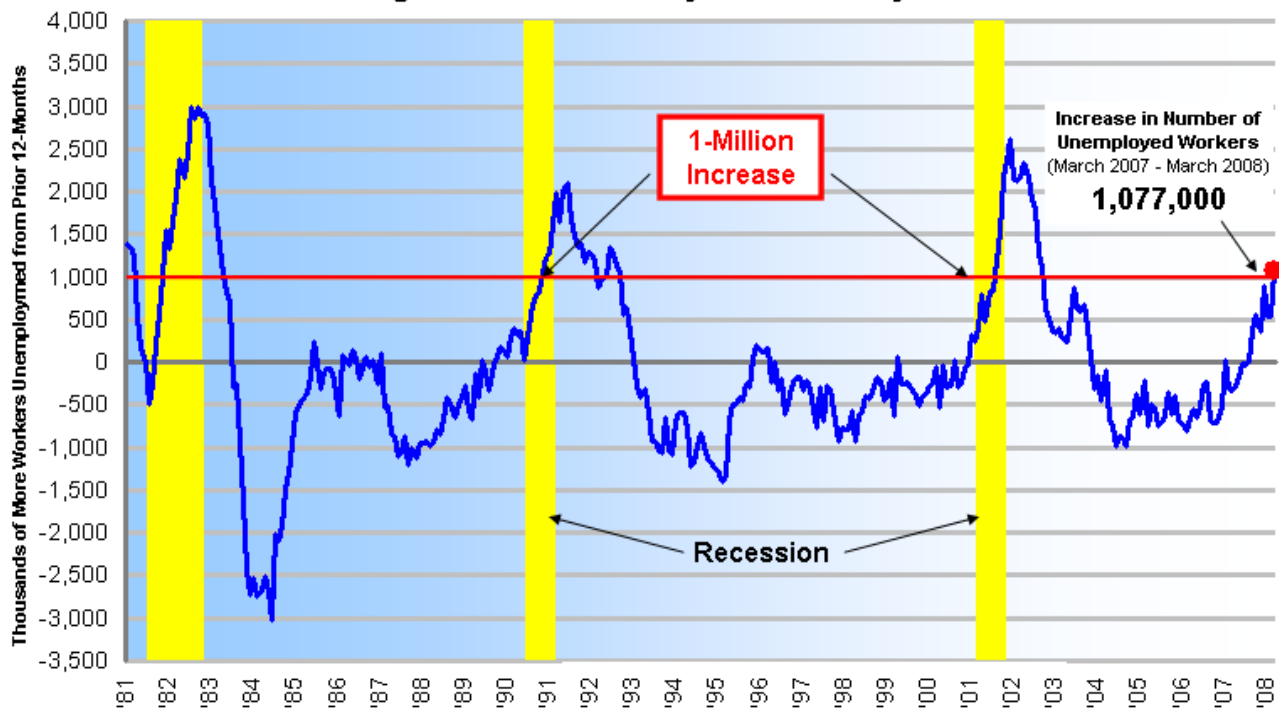
### Job Market Quickly Deteriorating

Over the first three months of this year, the U.S. economy lost a total of 232,000 jobs. With the labor market in such a steep decline, more workers face the possibility of layoffs and current UI recipients face greater difficulty in becoming re-employed.

The total number of unemployed workers has already grown by 1.1 million over the last twelve months. In the last three economic downturns (1981, 1990, and 2001), a one million increase in the number of jobless Americans over one year occurred four to five months *into* the recession (see following page).

## Time to Extend Unemployment Benefits

### 1 Million Increase in Unemployment Over 12-Months Signals Recession May Be Underway



Source: Current Population Survey. Data is seasonally adjusted and for those 16 Years and Over. Recessions are indicated based on National Bureau of Economic Research designations and exclude the turnaround/trough month.

Additionally, claims for UI benefits have increased significantly. For the week ending March 29, initial claims jumped to 407,000 (up nearly 90,000 from the same week in the prior year), and continuing claims rose to almost three million (up nearly 450,000 from the prior year).

### Unemployment Benefits are Very Effective Economic Stimulus

Unemployment benefits are extended during economic downturns in recognition of the fact that workers are losing their jobs and having difficulty becoming re-employed due to a depressed labor market. Providing assistance to such workers not only

helps them and their families avoid severe deprivation, but it also reduces the severity and duration of an economic downturn by sustaining consumer demand. For example, Moody's Economy.com estimates that every dollar of extended unemployment benefits generates \$1.64 of economic growth.<sup>3</sup>

The Congressional Budget Office also recently concluded that extending unemployment benefits provides one of the most cost-effective and fastest-acting forms of economic stimulus because jobless workers have little choice but to spend the money quickly.<sup>4</sup>

## **Official Unemployment Rate Artificially Low**

Some have suggested that an extension of unemployment benefits is not warranted because the unemployment rate is currently just above five percent. However, the unemployment rate can be somewhat misleading because, among other things, it fails to count workers who have given up searching for work. The total rate of under-employment would rise to nine percent if it counted workers who had only recently given up looking for employment, as well as workers who were forced to work only part-time.

Additionally, higher incarceration rates for young men and the rising number of older workers (who historically tend to have lower unemployment rates) artificially depress the current unemployment rate compared to the past.<sup>5</sup>

## **Unemployment is Likely to Rise Significantly**

Even with its limitations, the unemployment rate is likely to rise, possibly rapidly, in the coming months.

In March, consumer expectations for the future of economy fell to the second lowest level ever going back to 1967.<sup>6</sup>

This drop in confidence could negatively affect spending and therefore economic growth in the coming months. The tax rebate checks provided by Congress and the easing of credit by the Federal Reserve may help to partially mitigate declines in

consumer spending but any impact on employment will likely be delayed. Many forecasters, including the Wall Street Journal Economic Forecasting Survey, project that unemployment will continue to climb through the end of 2008.

These facts strongly argue for establishing additional protections for the unemployed quickly, as opposed to waiting until hundreds of thousands of workers exhaust benefits in a bleak labor market.

## **High Unemployment Areas Already Exist Across the Nation**

While there are varying degrees of unemployment among the States, local areas of high unemployment exist throughout much of the nation. There are over 100 metropolitan areas located in every region of the country with unemployment rates of six percent or higher, according to the Bureau of Labor Statistics.<sup>7</sup> Many of the cities with the very highest unemployment rates (exceeding ten percent) are located in California, which currently has an overall State unemployment rate below six percent.

## **Workers Unemployed Because of the Economy, Not Because of UI Benefits**

Even as the current economic data highlights the need to immediately shore up assistance for the unemployed, opponents have suggested any extension of unemployment benefits might reduce workers' incentive to

return to work. However, most economists believe any disincentive is extremely limited when the overall economy is suffering a period of weakness.

Even former Federal Reserve Chairman Greenspan spoke in favor of extending such assistance in the last recession, saying that during times when jobs are scarce *“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.”*<sup>8</sup>

Of course, the fact that UI replaces, on average, only 46 percent of a worker’s prior wages suggests there is usually ample reason for a dislocated worker to seek re-employment.

## **Time to Extend Unemployment Benefits**

In response to nearly every recession over the last 50 years, Congress has provided extended unemployment benefits to both help jobless workers who are looking for work and to stabilize the overall economy.

Congress should act now to establish this basic safety net again before more workers are left without assistance.

1. CBO makes this assumption in 2008 when preparing preliminary cost estimates of proposals to extend UI benefits.
2. CBO’s analysis compares monthly incomes, with and without UI benefits, of those receiving UI for at least four consecutive months in 2001 or early 2002. “Family Income of Unemployment Insurance Recipients,” Congressional Budget Office, March 2004.
3. Mark Zandi, “Washington Throws the Economy a Rope,” Moody’s Economy.com, January 22, 2008.
4. “Options for Responding to Short-Term Economic Weakness,” Congressional Budget Office, January 2008
5. Rebecca Blank, “If the Economy’s so Bad, Why Is the Unemployment Rate so Low?” Testimony to the Joint Economic Committee, March 7, 2008
6. “Consumer Confidence Index: Expectations,” The Conference Board, March 2008.
7. “Civilian labor force and unemployment by state and metropolitan area,” Bureau of Labor Statistics, April 2, 2008.
8. Alan Greenspan, Joint Economic Committee hearing, November 13, 2002.