



# Today's Unemployment Crisis by the Numbers

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## Introduction

Our nation today is mired in one of the worst labor markets since the Great Depression. There are currently nearly 15 million Americans unemployed, with the unemployment rate hovering at or just under 10 percent for nearly a year. At the end of May, nearly half of those unemployed (46 percent) have been out of work and actively seeking a job for at least six months, a post-World War II record high. Currently, there are nearly five workers actively searching for work for every job available, compared to just one and a half job searchers per job opening before the Great Recession began.<sup>1</sup>

Worse still, the labor market problems we see right now will be with us for some time. The massive employment hole left by the Great Recession will take years to fill. If we added 218,000 private sector jobs each month from now on—the highest monthly payroll increase seen so far this year in the private sector—it would still take almost five years to fill the hole.<sup>2</sup> That's why ensuring that unemployment insurance reaches the unemployed remains a critical component of any serious effort to help stem the harmful effects of this recession and to help the American economy recover.

Unemployment insurance is the primary mechanism to provide financial assistance to workers who are unemployed through no fault of their own. Yet in early June, Congress allowed unemployment benefits to expire for 1.2 million workers over the course of the month and has repeatedly been unable to pass legislation to fix this problem. This has serious implications for the unemployed, as well as every one of us who still has a job. Allowing benefits to the long-term unemployed to expire threatens our nascent economic recovery. Economists across the board agree that unemployment benefits are one of the most important counter-cyclical economic policies we have.

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1 Today's Unemployment Crisis by the Numbers

The Federal Reserve believes our chances of swift economic recovery in the coming months are slim, noting that “Financial conditions have become less supportive of economic growth on balance” and that “the pace of economic recovery is likely to be moderate for a time.”<sup>3</sup> To be sure, the economic policies of Congress and the Obama administration have helped the U.S. economy avoid an all-out catastrophe and then turned the economy toward recovery, putting over one to nearly three million people to work so far, but unemployment continues to be unacceptably high and is projected to hover around its current rate for the near future.<sup>4</sup>

Businesses of all sizes are not hiring because they do not see sufficient demand for their goods and services. The Federal Reserve is doing its bit, maintaining the federal funds rate—the interest rate at which banks can borrow from the Fed—at near zero for a year and a half, but there is no more room for monetary policy to boost the economy. That leaves fiscal policy—including especially unemployment benefits—as the primary tool government has to increase the demand for goods and services.

Alas, enough members of Congress don’t get it. Despite the lack of jobs and record-breaking unemployment, Congress allowed federal unemployment insurance provisions to lapse on June 4. Nearly a month later, they still have not reauthorized the unemployment insurance extensions that millions of jobless workers are relying on in this weak job market. Never before has Congress cut off benefits when unemployment was so high. Since the 1950s, federal unemployment insurance extensions remained in place during recessionary periods until unemployment dropped to as low as 5.0 percent. The highest unemployment rate at which these extensions were allowed to expire was 7.2 percent, following the 1983 recession—substantially lower than our current rate of 9.7 percent (see Table 1).

### Maintaining the safety net, until now

Expiration Date of Federal Unemployment Insurance Extensions	Unemployment Rate, Prior Month	Citation
April 1, 1959	5.6 percent	PL 85-441
April 1, 1962	5.6	PL 87-6
March 31, 1973	5.0	PL 92-329
November 1, 1977	6.8	PL 95-19
March 31, 1985	7.2	PL 98-135
February 5, 1994	6.6	PL 103-152
December 31, 2003	5.8	PL 108-26
June 4, 2010	9.7	

Source: Analysis from National Employment Law Project.

Yet conservative members of Congress continue to balk at extending these crucial unemployment insurance benefits. This is both unfair to the unemployed, who face a historically difficult situation through no fault of their own, and economically unwise as it threatens the prospect of a strong and sustainable recovery. The consequences are obviously dire for those Americans out of work, and could be equally devastating for employed Americans who are counting on a sustained economic recovery to keep their jobs and boost their earnings.

But before we go into the serious and negative economic implications of Congress's inability to act, we need to explain a few technical issues. Taken as a whole, the unemployment insurance system distributes benefits to recipients through both state- and federal-funded programs. States initially fund what is known as the Regular Program, which consists of up to 26 weeks of regular unemployment insurance benefits. In most states, an individual's earnings over a year-long period will determine the number of weeks one can receive. As of the second week of June (the week ending June 12, 2010), the latest for which data is available, over 4.5 million people received state unemployment insurance benefits.<sup>5</sup>

Federal unemployment insurance extensions are provided through two programs, both of which were enhanced by the American Reinvestment and Recovery Act of February 2009: emergency unemployment compensation, enacted during this recession first in mid-2008, and extended benefits. Under the most recent emergency unemployment compensation provisions, between 34 weeks and 53 weeks of federal unemployment insurance benefits are distributed to recipients after they have exhausted the state benefits available to them. These emergency unemployment compensation weeks are divided into four tiers, which are provided to states based on their levels of unemployment. At the end of May (during the week ending May 29, 2010), over 4.8 million recipients claimed emergency unemployment compensation benefits.

Additionally, between 13 weeks and 20 weeks of benefits are distributed through extended benefits, which is a permanent extension program that is normally paid for 50-50 through state and federal funding. The Recovery Act put forth full federal funding for the extended benefits program, which can "trigger on" by a measure that takes into account the portion of the unemployed labor force receiving benefits—a permanent trigger point is available in all states—or by a state's unemployment rate, which is an optional measure that states must choose to take up. Both of these triggers, when passing certain thresholds, indicate dire economic stress and the need for additional support in the form of unemployment insurance.

The full federal funding of the program set forth by the Recovery Act prompted 27 states to take up temporary extended benefits "triggers" based on their unemployment rates, which allowed these states to take advantage of the extra federal weeks more quickly. As

with emergency unemployment compensation, the maximum number of weeks a state can distribute through extended benefits is determined by its unemployment rate, with more weeks allocated to high-unemployment states. Nearly half a million recipients claimed extended benefits during the last week of May (see box).

The federal emergency unemployment compensation and extended benefits extensions put forth by the Recovery Act originally expired at the end of 2009. Since December of last year, both programs were renewed for short, temporary periods of one to two months and underwent reauthorization through congressional action three times. The current expiration of the programs, which occurred on June 4, 2010, is the fourth such time that Congress has revisited unemployment insurance extensions this year. The failure of Congress to reauthorize the programs, and ensure that they remain in place for the remainder of this year not only puts the well being of millions of recipients in jeopardy, but also potentially weakens our nascent recovery and recent job growth.

## Federal unemployment insurance extensions in brief

**Emergency unemployment compensation** provides 34 to 53 weeks of fully funded federal UI benefits. The program is divided up into four tiers, which are available to states depending on their unemployment rates:

- Tier I (20 weeks): Available to all states
- Tier II (14 weeks): Available to all states
- Tier III (13 weeks): Available to states with a three-month average unemployment rate of 6.0 percent or higher
- Tier IV (6 weeks): Available to states with a three-month average unemployment rate of 8.5 percent or higher

**Extended benefits** provides 13 to 20 weeks of UI benefits. All states trigger on to 13 weeks of extended benefits when their insured unemployment rate (the number of UI recipients as a percent of the unemployed workforce) reaches 5.0 or higher and is rising. Additionally, states can elect to trigger on to extended benefits in a similar fashion to the emergency unemployment compensation program—when their unemployment rates reach certain thresholds:

- Thirteen weeks: Available to states with a three-month average unemployment rate of 6.5 percent or higher
- Twenty weeks: Available to states with a three-month average unemployment rate of 8.0 or higher

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## What's at stake today

The June 4 expiration of federal funding for unemployment insurance extensions resulted in over 1.2 million recipients facing premature cutoffs during June alone. Already, 1.2 million recipients have been cut off from these federal benefits that they were otherwise eligible for because of continuing high unemployment in their states. This group, largely made up of the long-term unemployed, or those who have been out of work and searching for a job for at least six months or longer, will only continue to grow as Congress continues to debate the necessity of further UI extensions.

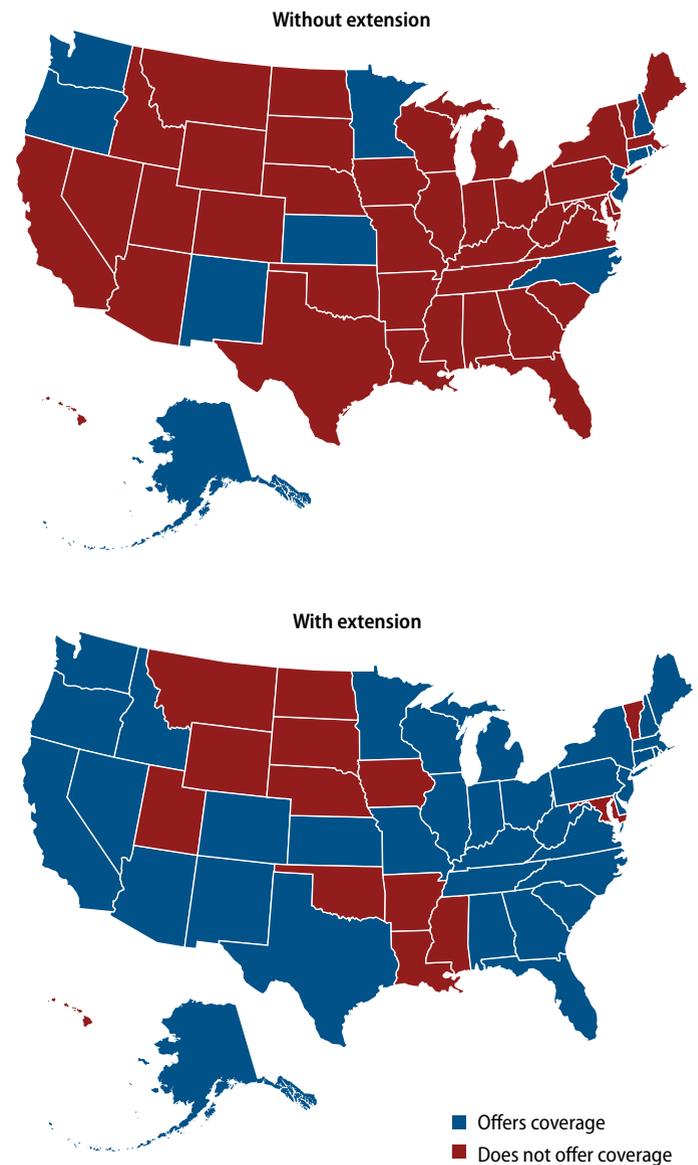
What's worse is that the extended benefits program, although permanently in place in all states, will not continue to provide extensions for most recipients relying on unemployment insurance extensions to feed themselves and their families, and keep their homes. Most states were able to distribute extended benefits through the optional trigger they took up (based on their unemployment rates) following the availability of federal funding through the Recovery Act. All 27 states that took up the optional trigger for extended benefits made the trigger dependent on full federal funding. In other words, when federal funding ended, so did the extended benefits program in most states.

In fact, only 11 states will remain on the extended benefits program now that federal funding has not yet been renewed. These 11 states boast permanent unemployment rate triggers that are not dependent upon federal funding to go into effect, and thus will continue to provide between 13 weeks and 20 weeks of additional unemployment benefits (see map).

The lapse in congressional reauthorization forces 23 states and the District of Columbia to stop distributing extended benefits at a time when additional unemployment insurance benefits are needed

### Who benefits from unemployment insurance extension?

A federal EB extension allows states to continue providing necessary benefits



most.<sup>6</sup> This will hurt those Americans most in need of additional help as the economy recovers enough to boost the overall jobs market, and will help the economy recover more swiftly by providing unemployment insurance to those who will immediately spend it. Let's now consider each of these benefits in turn.

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## Unemployment insurance helps those most in need

The deep and protracted nature of the Great Recession means that unemployed workers are facing unique hardships. Protracted, high unemployment has a lasting impact on workers, their families, and their communities. Extending unemployment compensation is one way the government can help alleviate pain for households during such difficult times.

Layoffs and unemployment can produce long-lasting harm on workers and their families. On average, a mature worker who loses a job will see earning reductions of 20 percent over the next 15 years to 20 years.<sup>7</sup> Job displacement leads to a 15 percent to 20 percent increase in death rates among unemployed Americans in the following 20 years. Overall, a worker displaced in mid-career can expect to live about two years less than a counterpart who is not displaced.<sup>8</sup> Unemployment also is associated with depression, and longer durations of unemployment predict higher levels of depressive symptoms among young adults in the United States.<sup>9</sup> And the labor market consequences of graduating from college in a bad economy are large, negative, and persistent.<sup>10</sup>

Unemployment benefits are clearly not an adequate replacement for full-time employment, but these benefits can help alleviate some of these problems and help prevent some of the long-term devastation that a forced layoff can put on a family. Further, new research is showing that these benefits are not adding to our problem of unemployment. In a paper released in April, the San Francisco Federal Reserve showed that the extension of unemployment benefits was not an important factor during the Great Recession in determining the duration of unemployment or the high unemployment rate.<sup>11</sup> This is consistent with other research showing that extensions of unemployment benefits have only modest effects on the behavior of individuals—the problem right now is a lack of jobs, not a lack of job search.<sup>12</sup>

In short, long-term unemployment persists because of the brutality of this economic crisis, not because guaranteed benefits have made the unemployed complacent or less aggressive in searching for a job. Important, too, to the long-term unemployed are two other key government benefits for health insurance and for additional unemployment insurance benefits (see box).

## Offering additional unemployment compensation and health care coverage

The Recovery Act further supported families facing joblessness through subsidies for COBRA (Consolidated Omnibus Budget Reconciliation Act) coverage, which gives workers and their families who lose their health benefits the right to choose to continue group health benefits for limited periods of time. The Recovery Act created a new 9-month subsidy funding 65 percent of an individual's COBRA payments for those workers who are involuntarily unemployed. In December 2009, the COBRA subsidy was extended for 15 months.

In addition, the Recovery Act provided a new federal additional compensation benefit, which distributed nearly \$14 billion in additional funding to households since the Recovery Act was enacted.<sup>13</sup> During this year alone, it has delivered over \$1.1 billion, on average, per month to the states.

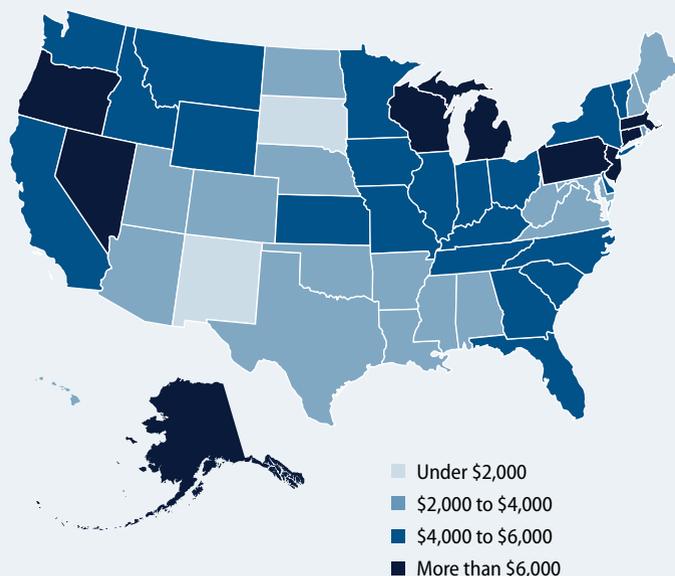
The federal additional compensation and COBRA benefits were dramatic measures aimed at responding to the worst recession in decades and supporting families and communities that have suffered from drastic and prolonged joblessness. Each provision has

reached millions of recipients, and pumped additional stimulus into households and the economy, allowing the jobless to better meet daily, immediate needs. Since the Recovery Act passed in February 2009, COBRA benefits have reached over two million households, totaling \$2.1 billion in aid toward maintenance of health coverage for jobless workers and their families (see map below).<sup>14</sup>

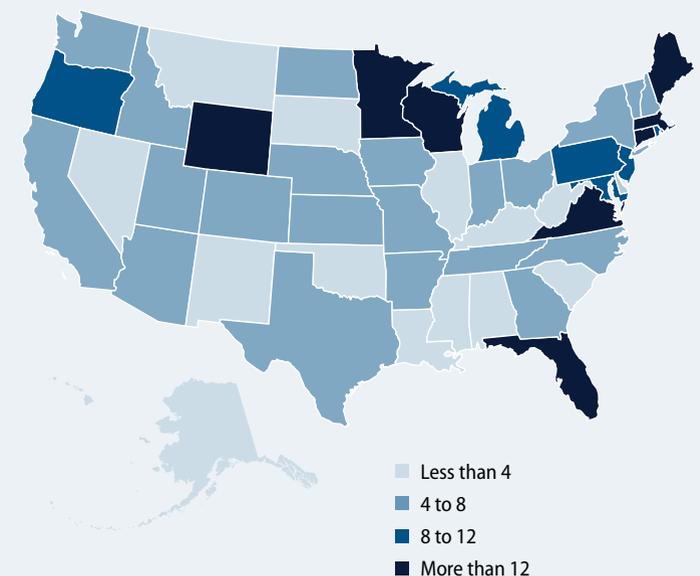
Recent proposals in the House and Senate surrounding reauthorization of unemployment insurance extensions have cut both the federal additional compensation provisions and COBRA benefits, citing additional costs amid concerns about the rising national fiscal deficit. Cutting these provisions when long-term unemployment is still skyrocketing and job growth is sluggish at best further endangers our economic recovery and can seriously undermine the well being of millions of Americans who have lost employment through no fault of their own. It is imperative that these provisions are reinstated in a package with unemployment insurance benefit extensions, and that they are kept in place through the end of this year.

### Additional compensation and health care coverage

Federal additional funds distributed per thousand residents (2010 monthly average)



Households receiving COBRA premium assistance in Q1 2009–Q1 2010, per thousand residents



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## Unemployment insurance extensions boost our economy

The federal unemployment insurance provisions are critical to our economy in the face of an extremely weak labor market, as well as for movement toward stronger economic recovery. No other policy has been more effective in supporting the economy during this recession, with benefits being spent directly and immediately on groceries, housing, medical care, and other daily needs. To date, the emergency unemployment compensation program on its own distributed over \$81.2 billion since mid-2008, and is one of the most important policies distributing assistance to households of jobless workers while upholding communities hit hard by unemployment.<sup>15</sup>

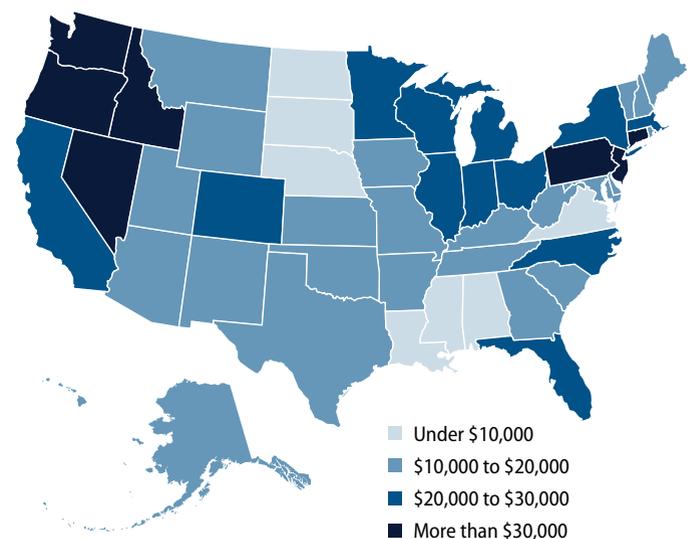
The emergency unemployment compensation and extended benefits programs remain critically important to communities this year. During the first five months of 2010, nearly \$6.8 billion in benefits, on average, were distributed to all states through the federal extensions. Allowing these programs to lapse further will remove a significant source of support and economic stimulus to the states, affecting both the unemployed and employed alike (see map).

Our economy is growing again, but businesses are still worried about low consumer demand, which in turn leaves them reluctant to hire. According to the most recent survey by the National Federation of Independent Businesses, the top concern right now for small business owners is poor sales.<sup>16</sup> The most recent Duke University CFO Survey, a quarterly survey of corporate chief financial officers, found that 36.4 percent of these executives believed that weak consumer demand was one of the primary concerns facing their corporation, and this was over 18 percentage points higher than any other listed concern.<sup>17</sup> Among the myriad of problems businesses are facing today, weak demand for their products and services remains one of the most pressing concerns for the private sector. Without consumers, businesses cannot grow.

Unemployment benefits strengthen overall consumer demand during a recession—especially given that traditional monetary policy has no more wiggle room to boost economic growth—and remain one of the most effective policies we have to fight continued high unemployment. The unemployed cannot spend what they do not earn. These benefits are crucial, both in assisting millions of people in need, but also injecting money into communities by

### Where the money is going

Federal extension of UI benefits distributed per thousand residents (2010 monthly average)



giving people more purchasing power, thus ensuring that currently employed Americans stay employed and creating opportunities for the currently unemployed to find work.

This connection is irrefutable: Unemployment benefits prevent sharp declines in consumption,<sup>18</sup> and by putting money directly into the hands of those most likely to spend it, unemployment benefits help turn around the weak consumer demand that is plaguing the private sector today, keeping Americans in their jobs and creating demand for new jobs for the currently unemployed.

Economists measure this effect by the estimating how much one more dollar of federal spending increases the overall economic output of the nation, which is called the economic multiplier. Mark Zandi of Moody's Economy.com and a former economic advisor to Sen. John McCain (R-AZ) during his recent presidential bid puts the economic multiplier of extending a dollar of unemployment benefits at 1.6, larger than for other policies.<sup>19</sup> The upshot: For every dollar spent on unemployment compensation, \$1.60 is added to our economy's output. The Congressional Budget Office estimates that the multiplier range is between 0.8 and 2.1.<sup>20</sup>

In short, as the private sector of our economy slowly recovers, economists agree that such a boost in consumer spending will be greatly needed to create jobs and foster an environment for the private sector to continue hiring.

Importantly, so too do the American people. We overwhelmingly say that extending unemployment insurance benefits is an important priority and a worthwhile investment. In a June 2010 survey by Hart Research Associates, 74 percent of respondents agreed with the statement "With unemployment close to ten percent and millions still out of work, it is too early to start cutting back benefits and health coverage for workers who lost their jobs." And the most recent CBS/New York Times poll, taken in mid-June, found that 40 percent of respondents believed that the economy and jobs were the most important issues, compared to only 5 percent who believed the deficit was the most important.<sup>21</sup>

What's more, other polls reaffirm that the public has clearly and consistently supported extending these benefits and still do. In a December 2009 CNN poll, 74 percent of respondents said that creating jobs, even if it means less deficit reduction, was more important. In a January 2010 CNN poll, 83 percent of respondents approved of providing unemployment insurance and health insurance to those who have lost their jobs. Americans then, as now, understand the pain of unemployment for the unemployed, as well as the gains of providing employment insurance for the overall economic wellbeing of our nation as we struggle to recover fully from the Great Recession. Congress needs to listen to the American people, not to a loud minority of conservative pundits and politicians who want to demonize the unemployed in pursuit of fiscal policies that could lead our economy back into recession.

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## Endnotes

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