COMMITTEE ON WAYS AND MEANS

New Approaches Needed to Help the Unemployed

Reviewing Whether $600 Billion in UI Spending since 2008 Has Produced Promised Results

Committee on Ways and Means
Chairman Dave Camp

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Introduction

June 30, 2013 marks the fifth anniversary of the Emergency Unemployment Compensation (EUC) program, the current "temporary" Federal unemployment benefits program created in June 2008 under the *Supplemental Appropriations Act, P.L. 110-252*. As that anniversary approaches, it's worth taking stock of what taxpayers have gotten for the more than $600 billion spent on State and Federal unemployment insurance (UI) benefits since 2008. That list includes:

- Record weeks of unemployment benefits;
- Record length of a "temporary" Federal UI program;
- Record numbers of long-term unemployed;
- Record spending on State and Federal UI benefits; and
- Empty promises of UI benefits stimulating a robust economy.

To be sure, the nation's UI program has helped millions of families temporarily make ends meet by providing weekly unemployment checks. But the American people want this program to do much more than just that. They want it to help the unemployed get back to work and once again collect *permanent* paychecks instead of *temporary* unemployment checks. The recent evidence suggests this program has fallen far short of Americans' expectations.

Record Weeks of Unemployment Benefits

During recessions stretching back to the 1950s, Federal policymakers have generally added 13 to 26 weeks of UI checks, paid for in whole or in part with Federal funds, on top of typically 26 weeks of State UI checks. In the wake of the 2007-09 recession, however, that mix of benefits changed dramatically. As displayed in table 1 below, in three laws enacted between November 2008 and November 2009, maximum weeks of benefits soared beyond the longstanding norms to a record 99 weeks, with an unprecedented three quarters of those weeks (73 weeks, payable from late 2009 through the middle of 2012) supported entirely with Federal funds:

Table 1. Extensions of Federal UI Benefits, 2008-2013

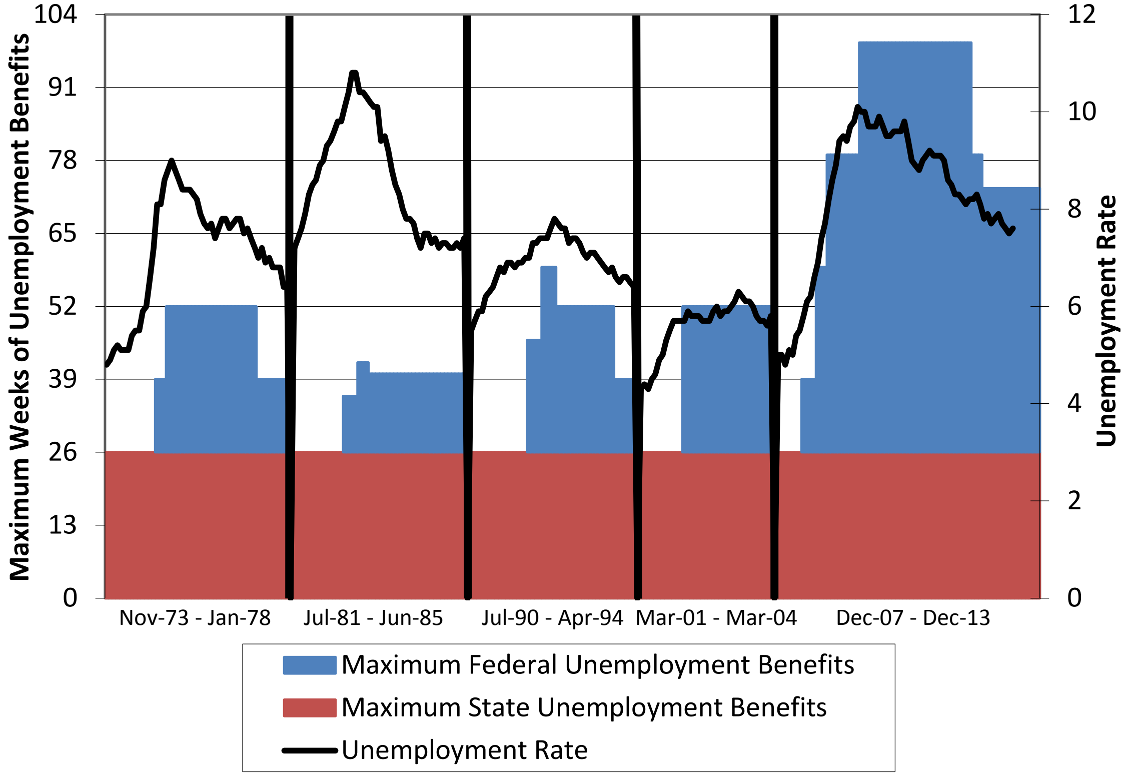
DATE OF EXTENSION	***LENGTH OF EXTENSION***	***SPENDING ADDED TO DEBT***	***MAXIMUM WEEKS OF BENEFITS***
1. JUNE 2008	8 MONTHS	$13 BILLION	26 STATE + 13 FEDERAL = 39 TOTAL
2. NOVEMBER 2008	4 MONTHS	$6 BILLION	26 STATE + 33 FEDERAL = 59 TOTAL
3. FEBRUARY 2009	10 MONTHS	$39 BILLION	26 STATE + 53 FEDERAL = 79 TOTAL
4. NOVEMBER 2009	1 MONTH	PAID FOR	26 STATE + 73 FEDERAL = 99 TOTAL
5. DECEMBER 2009	2 MONTHS	$11 BILLION	STRAIGHT EXTENSION = 99 TOTAL
6. MARCH 2010	2 MONTHS	$7 BILLION	STRAIGHT EXTENSION = 99 TOTAL
7. APRIL 2010	2 MONTHS	$13 BILLION	STRAIGHT EXTENSION = 99 TOTAL
8. JULY 2010	5 MONTHS	$34 BILLION	STRAIGHT EXTENSION = 99 TOTAL
9. DECEMBER 2010	12 MONTHS	$57 BILLION	STRAIGHT EXTENSION = 99 TOTAL
10. DECEMBER 2011	2 MONTHS	PAID FOR	STRAIGHT EXTENSION = 99 TOTAL
11. FEBRUARY 2012	10 MONTHS	PAID FOR	26 STATE + 47 FEDERAL =73 TOTAL
12. JANUARY 2013	12 MONTHS	$30 BILLION	STRAIGHT EXTENSION = 73 TOTAL
TOTAL	67 MONTHS	$210 BILLION	

Source: Congressional Research Service, Extending Unemployment Compensation During Recessions.

Record Length of a "Temporary" Federal UI Program

As chart 1 displays, the recent maximum of 99 weeks of all State and Federal benefits far exceeds the total available during any prior "temporary" Federal program. The chart also displays how, at a total of 67 months of operation as authorized through December 2013, the current "temporary" program will operate far longer than any prior such program dating back to the 1970s:

Chart 1. Record Weeks of Benefits for a Record Time Period



Source: Congressional Research Service, Extending Unemployment Compensation During Recessions.

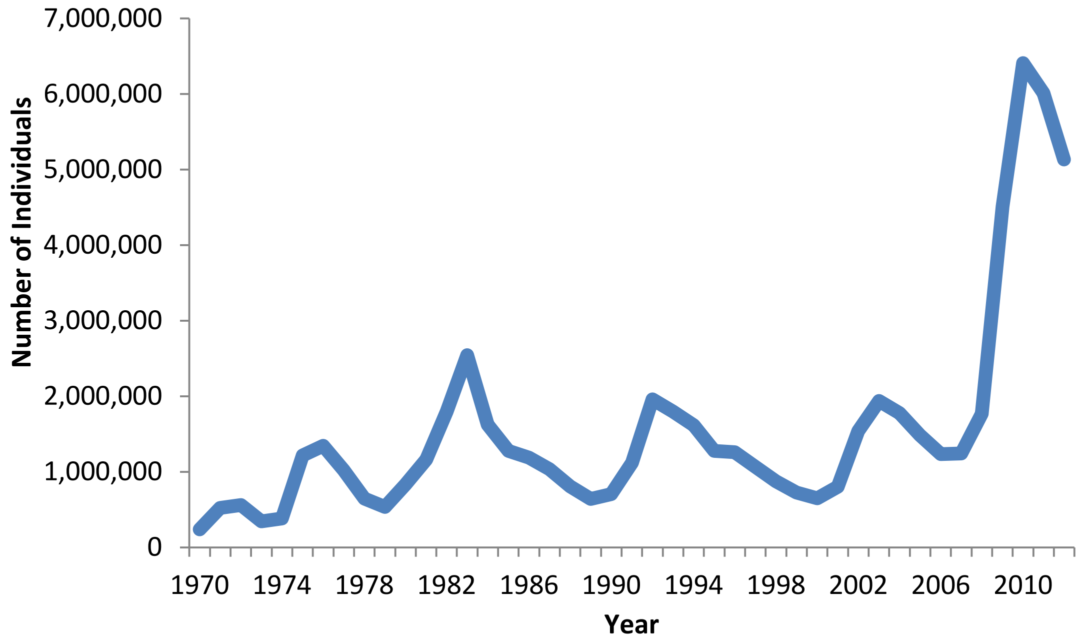
Record Numbers of Long-Term Unemployed

The actual number of long-term unemployed (defined as those unemployed over 26 weeks) has soared in recent years. As the Congressional Budget Office (CBO) noted in a 2012 report to the Ranking Member of the Committee on Ways and Means, the availability of record durations of UI benefits is part of the reason:

> *"UI extensions also contributed to the increase in the proportion of unemployed people who have been seeking jobs for more than 26 weeks, in CBO's judgment….A recent study analyzing such differences found that UI extensions during and after the recent recession elevated the share of long-term unemployment."*

Despite the fact the recession officially ended four years ago, the current 4.4 million long-term unemployed would still be a record in the wake of any prior recession:

Chart 2. Individuals Unemployed for 27 Weeks or More, 1970-2013



Source: Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey.

Record Spending on State and Federal UI Benefits

The recent unprecedented expansion in UI benefit payouts came at a huge cost for both State and Federal taxpayers. State UI benefits, typically payable during the first six months of unemployment, totaled $324 billion since 2008. This is nearly double the $170 billion in State UI benefit spending in the five years before 2008, a period which included several high-cost years following the 2001 recession.

The creation of the Emergency Unemployment Compensation (EUC) program in June 2008 was followed by a dramatic rise in Federal extended benefit spending, as displayed in table 2 below. Spending on Federal extended benefits grew from $0.02 billion in Fiscal Years 2005-07[1] to $138.6 billion in Fiscal Years 2008-10, an astonishing *692,900 percent increase*:

[1] Prior to the creation of the temporary EUC program, the Federal government supported 50 percent of the cost of benefits paid to certain long-term unemployed workers under the permanent law Extended Benefits (EB) program, which was created in 1970.

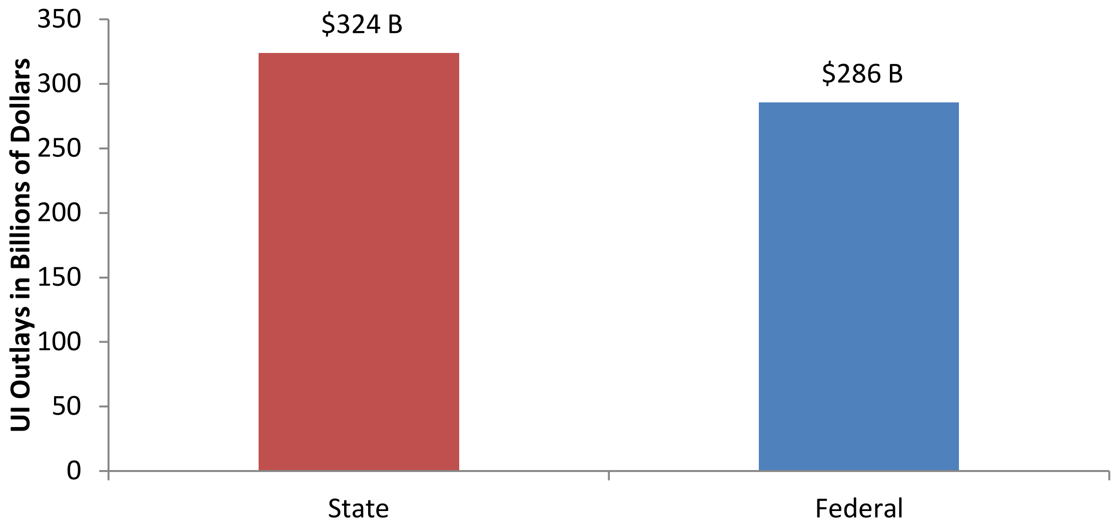
Table 2. Federal Spending on Extended UI Benefits, by Fiscal Year ($B)

	2005	2006	2007	2008	2009	2010
One year	$0.0	$0.01	$0.01	$3.6	$43.3	$91.6
Three years	$0.02			$138.6		

Source: Department of Labor, FY2014 President's Budget UI Outlook.

As reflected in chart 3 below, State ($324 billion) and Federal ($286 billion) spending on all UI benefits since 2008 has now surpassed $600 billion – approximately $2,000 for every man, woman and child in the U.S.

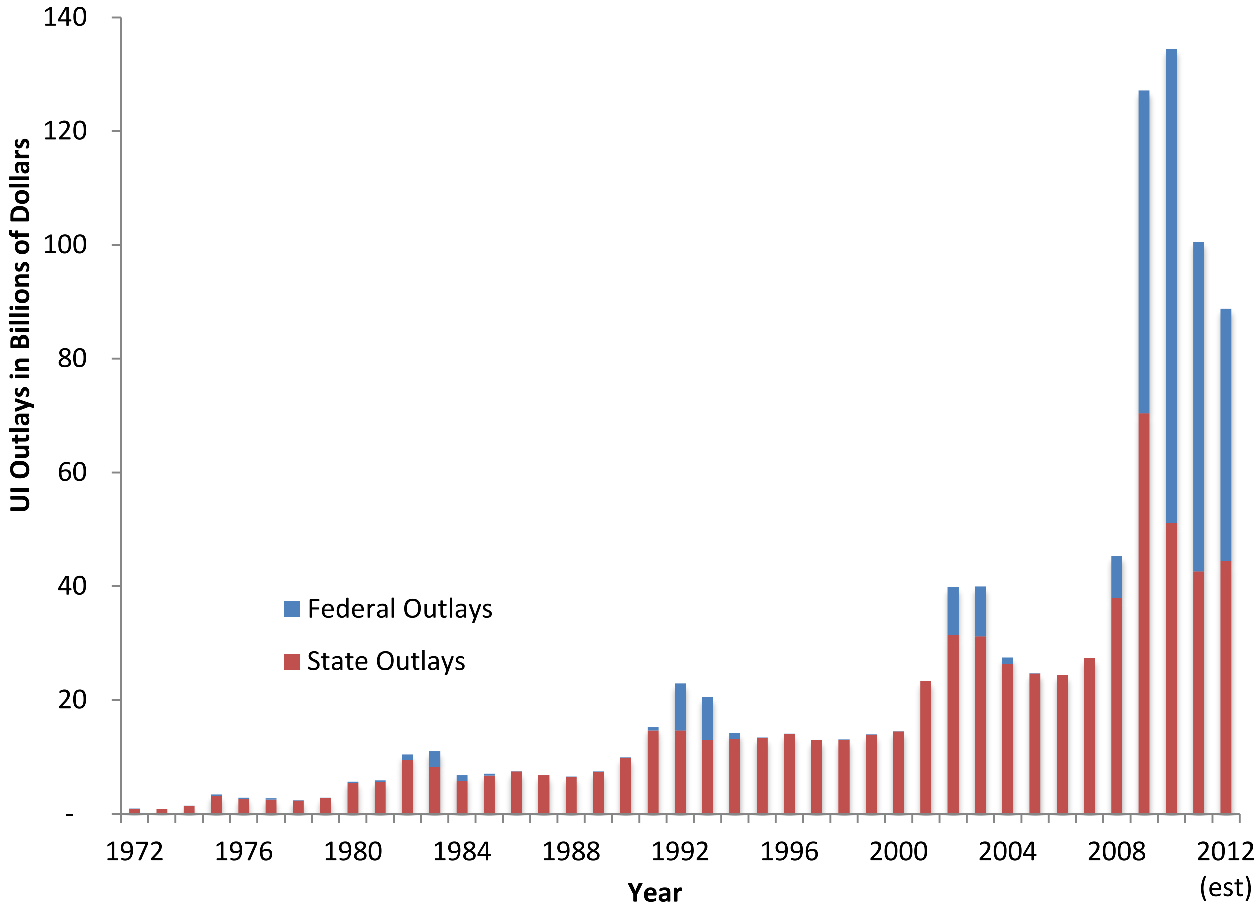
Chart 3. Total State and Federal UI Spending, Since 2008



Source: Department of Labor, FY2014 President's Budget UI Outlook.

It is useful to compare recent Federal spending with the last time Federal extended benefits were offered in the wake of the 2001 recession. Back then, either 13 or 26 weeks of Federal extended benefits were payable, resulting in total weeks of UI benefits typically stretching to either 39 or 52 weeks; those Federal benefits were available during two years (early 2002 through early 2004). In contrast, in the wake of the 2007 recession, up to 73 weeks of Federal benefits have been payable, for a total of up 99 weeks of all benefits, in a program stretching over five years. Combined with higher unemployment, those factors mean the cost of current Federal extended benefits is 12 times greater than the last time a "temporary" Federal program operated in 2002-04. In fact, recent Federal spending is almost four times greater than combined spending on all prior Federal UI benefit programs over the last 40 years, as displayed in chart 4.

Chart 4. Federal and State UI Outlays, 1972-2012 (in 2012 Dollars)



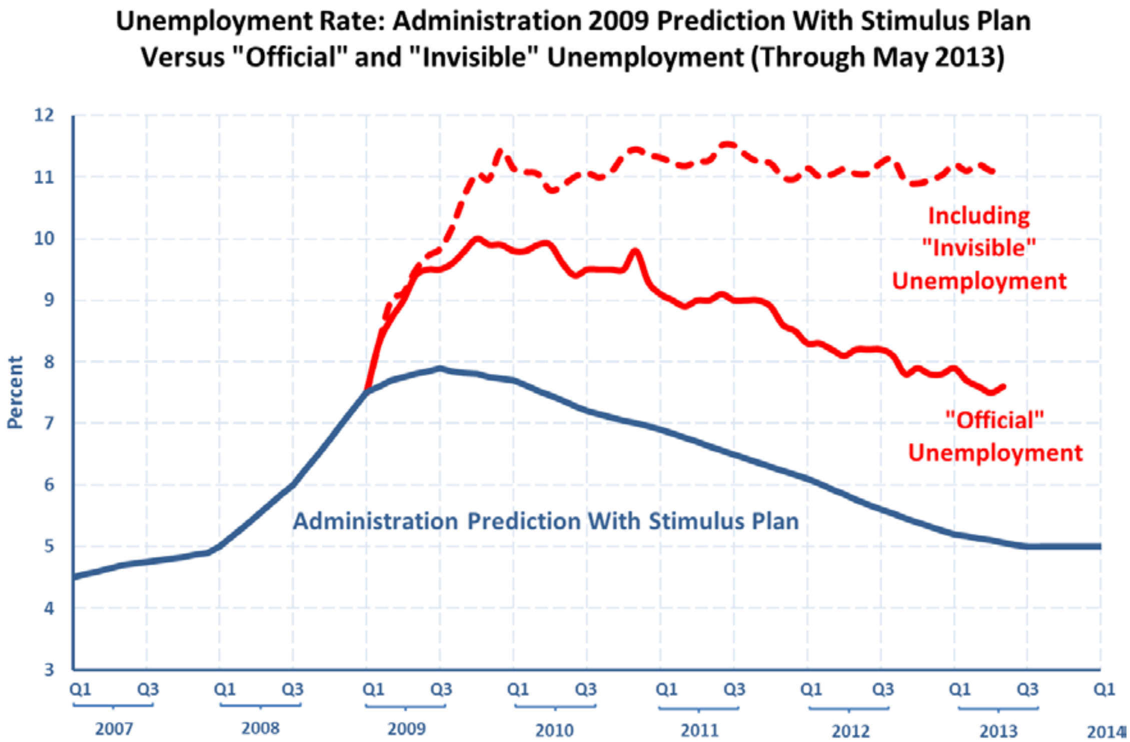
Source: Department of Labor, Unemployment Insurance Financial Data Handbook.

Empty Promises of UI Benefits Stimulating a Robust Economy

Unemployment benefits are a longstanding part of the policy landscape and serve an important purpose of assisting the unemployed as they search for work. However, as the data above suggest, the current experience merits close inspection to ensure benefits match need and do not result in unintended negative consequences. For example, instead of being one of the "biggest stimuluses," as House Democratic leader Nancy Pelosi once said, scholars have suggested that recent extended UI benefits actually contributed to higher unemployment. For example, a study by economists at Princeton University and the San Francisco Federal Reserve Bank estimated that the recent expansion of unemployment benefits raised the unemployment rate by 0.4 percentage points in 2009. As Alex Brill of the American Enterprise Institute notes, that means "the unemployment rate averaged 9.3 percent instead of 8.9 percent, a difference of over 500,000 unemployed workers."

It is also important to remember those who are not included in the numbers of long-term unemployed displayed in the charts above – that is, the millions who have dropped out of the labor force, resulting in their being removed from the official count of the unemployed. As chart 5 displays, if these and other "invisible" unemployed were added back into the official unemployment rate calculation, the real unemployment rate would be 11 percent today:

Chart 5. Invisible Unemployment Remains at 11 Percent



Source: Projection from January 2009 Romer/Bernstein report, with actual unemployment rate data from Bureau of Labor Statistics.

Numerous commentators have noted that those exhausting unemployment benefits and dropping out of the labor force are also straining other benefit programs. For example, the *Wall Street Journal* reported that "the prolonged economic slump has fueled a surge in applications for Social Security disability benefits, with many desperate Americans seeking refuge in the program as a last resort after their unemployment insurance and savings run out." According to a recent study by Boston College research economist Matthew Rutledge, jobless individuals are "significantly more likely to apply" for disability benefits "when [unemployment payments are] ultimately exhausted."

Conclusion: New Approaches Needed to Help the Unemployed

In searching for answers for economic and social problems, the Federal government typically fails to assess past practice to determine what works, what doesn't and what may even make matters worse. That means too often Federal policymakers effectively keep running the same play, regardless of whether that play previously resulted in an impressive policy touchdown (almost never), an encouraging first down (rarely), or no gain or even a loss of yards (most commonly). When it comes to Federal interventions to help the unemployed in the wake of the 2007-09 recession, the Federal government kept running the same old play to help the unemployed, except on steroids – extending and expanding unemployment benefits and spending to record levels.

If recent experience has established anything, it's that record unemployment benefits don't necessarily stimulate a robust recovery or the rapid return of the unemployed to work. If they did, the benefits paid since 2008 would have resulted in an historic economic boom and minimal durations of unemployment. Unfortunately, the opposite occurred – a historically weak recovery and continued near-record durations of unemployment long after the recession officially ended. As UCLA economist Edward Leamer recently said of recent economic growth, "It's not a recovery. It's not even normal growth. It's bad."

So, what should Congress and the Administration do now to build off this experience, as well as the UI reforms contained in the *Middle Class Tax Relief and Job Creation Act of 2012*?

First, learn from the experiences of States that have tried different approaches. For example, Utah has been one of several States to test ways of engaging the newly unemployed and getting them back to work before they become long-term unemployed. Old fashioned casework, combined with modern technology to focus administrative resources on those most in need of extra help, have been a key to their success. As noted in recent Congressional testimony, Utah's rapid reemployment approach resulted in the State's average duration on UI falling from "a high of 18.2 weeks in 2009 to 13.5 weeks at the end of 2012, the 49th lowest in the nation."

Congress accepted this premise of engaging the unemployed in 2012 UI reforms requiring States to engage the long-term unemployed in "reemployment eligibility assessments." But for many, that may come too late. More States should engage the unemployed in aggressive job search and other back-to-work efforts early in spells of unemployment, well before they are out of work for six months. Evidence suggests that will promote faster returns to work, leading to higher wages and incomes for the unemployed and saving taxpayers' money.

Second, encourage States to test new approaches. For example, Congress in the 2012 UI reforms authorized the first "waivers" of Federal UI policies in order to allow States to test new ways of using UI to promote work. Since 1935, UI benefits have been used solely for payments to people who are not working. But what if UI funds could be used to help unemployed workers get in a new job instead? Unfortunately DOL red tape has so far stifled State interest in using this new tool. It's time to free the waivers and let States test better ways to use UI funds to get the unemployed *into work* instead of supporting them only when they are *out of work.*

Third, promote options already available to States to prevent layoffs and keep people on the job. For example, the 2012 UI reforms encouraged States to design "short-time compensation" programs that provide partial unemployment benefits to those whose work hours are reduced, but who are not fully laid off. The availability of Federal funds to help States administer and provide these new benefits should help spur State interest.

Finally, engage in a serious evaluation of UI programs and funding going forward. Does it make sense to have States pay for most UI benefits, but not far smaller administrative costs? Should there continue to be two separate UI taxes – a State and Federal tax? Does it make sense to operate a small "permanent" extended benefits program that always is trumped by far larger and more expensive "temporary" programs Congress creates in the wake of recessions? These and other important questions merit close scrutiny to ensure that the nation's UI program effectively helps the unemployed get back to work and collecting paychecks, instead of unemployment checks.