

Committee on Ways and Means

Debunking Liberal Myths on the Unemployment Picture

Overview

Recent reports by the liberal Center on Budget and Policy Priorities (CBPP) are often quoted by Democrats who argue that today's unemployment situation is a crisis requiring a costly expansion of benefits. The following analyzes such claims, showing that:

1. The current number of unemployed is LOWER than levels in any recent recession;
2. The unemployment rate when the Democratic Congress ended extended benefits in 1994 was HIGHER than the current rate; and
3. Continued expansions of benefits as proposed by Democrats will raise taxes and drain more than half of remaining Federal unemployment trust funds.

Liberal Claims and Realistic Analysis

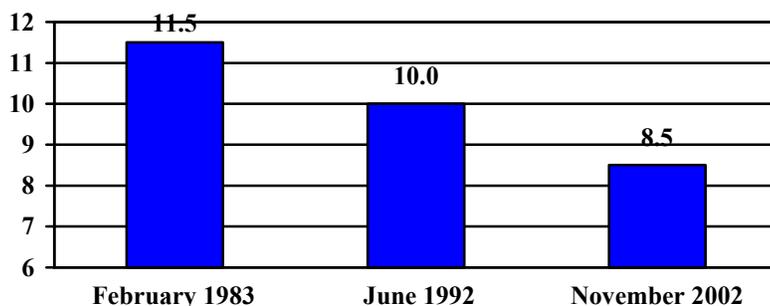
Liberal Claim #1: The overall unemployment picture is grim.

"The number of people who are unemployed is high – more than 8.1 million in August – and has increased significantly over each of the past two years."
("Number of Workers Exhausting Federal Unemployment Insurance Benefits,"
CBPP, September 19, 2002, p.6)

Realistic Analysis:

- Despite recent rises, there are still 1.5 million fewer unemployed workers now than in the 1990s recession, and 3 million fewer now than in the 1980s recession. At the same time, the civilian labor force has increased by 32 million workers since 1983.

Millions of Unemployed: Recent Recessions and Current



- The number of people unemployed today is high only when compared with levels at the end of the longest economic expansion in U.S. history.

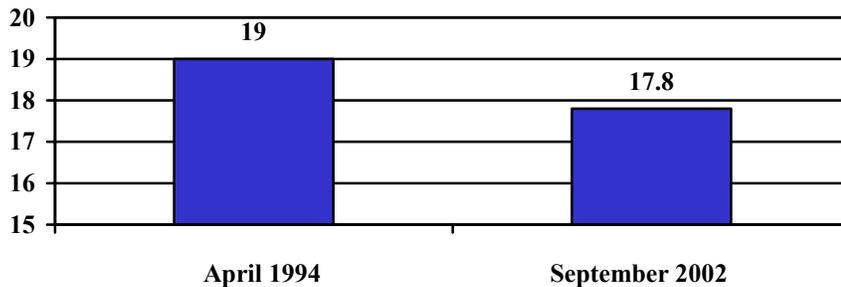
Liberal Claim #2: Long-term unemployment is worse now than at any time since December 1994.

“Average duration of unemployment increased to 17.8 weeks in September, the longest average duration since the current recession began and longer than any average duration since December 1994.” (“Behind the New Unemployment Figures,” CBPP, October 4, 2002, p. 1)

Realistic Analysis:

- This data is not surprising as the economy and number of jobs grew throughout the mid to late 1990s, followed by a shallow recession that has led to modest increases in unemployment.
- What CBPP fails to note is that, when the former Federal extended benefits program ended in April 1994, average unemployment duration was 19 weeks. In April 1994, Democrats controlled the House, Senate, and White House.

Average Weeks of Unemployment When Last Extended Benefits Program Expired and Current



Liberal Claim #3: Unemployment benefits can be expanded without raising taxes.

“The federal unemployment insurance trust funds contain large reserves that are more than ample to support the strengthening of TEUC; no additional unemployment insurance taxes would be needed.” (“Number of Workers Exhausting Unemployment Insurance Benefits,” CBPP, September 19, 2002, p. 2)

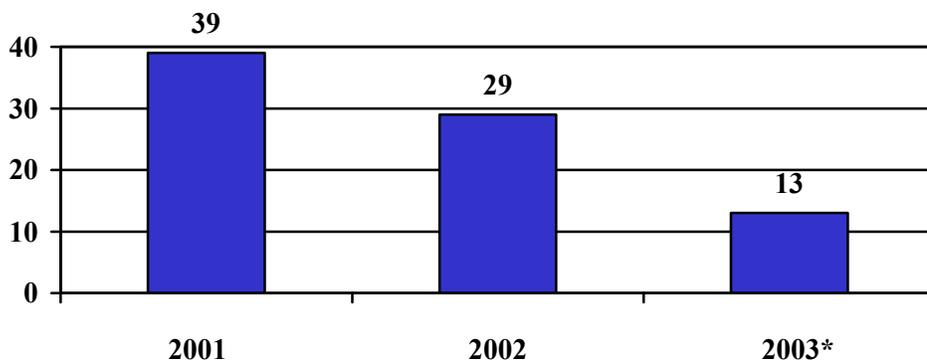
Realistic Analysis:

- The Congressional Budget Office (CBO) has analyzed the leading Democratic proposal (S. 3009) to extend and expand unemployment benefits. This analysis

finds that “enactment of S. 3009 would increase direct spending by \$17.1 billion in fiscal year 2003.” (*October 2, 2002 CBO letter to Senator Kent Conrad on S. 3009*)

- According to the U.S. Department of Labor, at the end of fiscal year 2002, there was a total of \$29 billion in the Federal unemployment trust funds. Spending \$17 billion would exhaust 59% of the current balance to provide benefits through June 2003. If continued through the second half of 2003, this policy would risk exhausting all Federal unemployment funds.

End of FY Balance, Federal Unemployment Trust Funds
(\$B)



*CBO estimate assuming passage of S. 3009.

- CBO finds the benefit expansions in S. 3009 would result in higher taxes: “Revenues would increase by about \$4.8 billion over the 10-year period.” (CBO) These higher taxes would be payroll taxes – that is, taxes on employment that would punish instead of promote new job creation.