Testimony of
Christine L. Owens, Executive Director
National Employment Law Project

Before the United States Congress
Joint Economic Committee

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Senator Schumer, Congresswoman Maloney and members of the Committee: Thank you for this opportunity to testify today on the subject of unemployment in our struggling economy, and the need for an extension of jobless benefits to help stimulate the economy and serve the growing number of workers who are experiencing especially long durations of unemployment without finding new jobs.

My name is Christine Owens, and I am the Executive Director of the National Employment Law Project (NELP), a non-profit research, public education and advocacy organization that specializes in economic security programs, including unemployment insurance, Trade Adjustment Assistance (TAA) and the workforce development system. Our organization has worked in the states and with Congress to protect the nation's economic security programs against serious attacks in recent years and to promote reforms that deliver on the nation's promise of economic opportunity.

NELP worked with labor and community allies and supporters in Congress to secure an extension of federal unemployment benefits during the last recession and to win major improvements in the federal program of benefits provided to the families left jobless by Hurricanes Katrina and Rita. In states across the nation, NELP has been a key player in successful efforts to update states' unemployment insurance programs, to ensure that more workers are eligible to receive benefits during periods of joblessness. NELP also operates a special project in the Midwest, working with state officials and others to help laid-off manufacturing workers better access trade act benefits and related programs. Thus, we have a long-standing interest and expertise in and commitment to policies that serve the working families hardest hit by economic downturns in the U.S. and the fallout from globalization.

Our testimony today summarizes recent evidence of the economy's ongoing decline, and discusses the importance of extending unemployment insurance benefits to boost the economy overall and to provide critical support to the working families most harshly affected by the downturn. In particular, we focus on long-term unemployment. As we point out in more detail below:

- The official unemployment rate and other measures of labor market underutilization are higher today than at the beginning of the 2001 recession.
- Unemployment claims are rising: As of the week ending February 23rd, the four-week moving average of claims exceeded 360,000, the highest level since Hurricane Katrina came ashore in 2005.
- The duration of long-term unemployment—that is, unemployment exceeding six months—since the last recession is unprecedented. For a period of 32 consecutive weeks beginning in November 2002, more than 20 percent of the unemployed were jobless for at least six months.

- The average duration of unemployment—17.5 weeks in January 2008—is much longer now than at the outset of the recessions that began in 2001 (12.6 weeks) and 1990 (11.9 weeks), and the number of workers jobless for at least six months is more than twice as large now as in March 2001 and July 1990.
- A larger share of jobless workers are exhausting their state unemployment benefits without finding work today (36 percent) than in March 2001 (32 percent) or July 1990 (28 percent).
- Waiting to extend unemployment benefits until the unemployment rate rises more is ill-advised. As recent recessions demonstrate, the unemployment rate does not rise dramatically until a recession is well underway or, in fact, has ended. Since the purpose of extended benefits is to avert a recession or mitigate its consequences for the economy and workers, pegging the extension of benefits to a jump in the unemployment rate is counterproductive.
- Unless Congress and the President act to extend unemployment benefits, an estimated 3 million jobless workers will run out of their state benefits over the coming year, with neither jobs nor federal benefits to rely on to support themselves and their families.

The Drumbeat of Recession News

The telltale signs of a national recession grow increasingly impossible to ignore with the issuance of nearly each new economic report. What distinguishes the current economic downturn from prior recessions is the combined and continued uncertainty of the fall-out from the sub-prime mortgage collapse, the resulting credit crunch, and the surge in energy prices, none of which show any significant signs of improvement.

- <u>The Sub-Prime Mortgage Crisis Escalates</u>: Initial foreclosure notices now surpass new home sales by three to one, with 2.2 million foreclosures filed in 2007 and an estimated 3.5 million expected by 2010. While earlier estimates put the losses associated with the sub-prime crisis at $50 billion to $100 billion, a recent report estimates losses will now exceed $400 billion.[1]

- <u>Financial Institutions Restrict Credit:</u> As a result of the exposure due to the sub-prime mortgage crisis, banks and other lenders are now projected to limit their lending and other assets by $2 trillion, thus reducing economic growth by one to 1.5 percentage points.[2]

- <u>Energy Costs Keep Surging, Raising Consumer Prices:</u> This week, oil prices reached an all-time high of $104 a barrel, thus surpassing the prior record set during the oil crisis of the 1980's. A gallon of gas cost $3.10 at the end of February, up 32 percent—75 cents—from the same time last year.[3] As a result of the surge in energy prices, consumer prices increased by 4.1 percent in the past year, the largest increase in 17 years. Meanwhile, workers' earnings are down in the past year by 1.4 percent.[4]

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[1] "Study Finds Wider Impact of Mortgage Losses," Wall Street Journal (March 1, 2008), A-2.
[2] Id.
[3] For gas prices, see http://money.cnn.com/2008/02/24/news/economy/gasprices_0224.ap/index.htm.
[4] "Toxic Economic Mix Feared," *Associated Press* (March 2, 2008)

- Service Industry Now Hard Hit, Not Just Manufacturing: The service sector became the latest casualty of the economic downturn when the index of non-manufacturing business activity fell in recent weeks to its lowest level since October 2001.[5] At the same time, manufacturing continued its devastating slide, shrinking at the fastest pace in five years, according to the Institute for Supply Management's latest factory index.[6]

- Consumer Confidence Falls to 16-Year Low: These sobering economic forces, combined with the declining job market described below, pushed consumer confidence down to a 16-year low in February 2008.[7] Consumer spending, which represents more than two-thirds of the Gross Domestic Product (GDP), has been flat as incomes grow more slowly because of the declining job market.[8]

While economists continue to debate the ultimate breadth and depth of the national economic downturn, large numbers of states are already in serious economic distress. According to economist Mark Zandi of Moody's Economy.com, five states with large economies, including California, are now in recession, and these states account for one-fourth of the nation's Gross Domestic Project. Another 15 states are on the verge of recession, accounting for another quarter of the nation's GDP.[9]

Rising Unemployment Compounded by Slow Job Growth

Working families are bracing for more hard times amid troubling signs that layoffs will rise at the same time the nation's economy is failing to create an adequate supply of jobs for all those who want to work.

Remarkably Slow Job Growth: For the first time in four and a half years, the economy lost jobs in January 2008. While this represented a significant benchmark of economic distress, the fact is that job growth has been remarkably anemic since the last recession ended in November 2001. Indeed, after the 2001 recession, it took 46 months for employment to recover to pre-recession levels, compared with 31 months after the 1990's recession's end. Prior to the 1990s, on average, jobs returned to pre-recession levels after just 21 months.[10] Thus, compared to prior recessions, it is much harder for unemployed workers to find work in today's "lean" economy, while they are competing for more limited job openings.[11] According to the Department of Labor's most recent **JOLTS** report, job openings, new hires and

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[5] "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).
[6] "U.S. Economy: Manufacturing, Construction Spending Decline," *Bloomberg* News (March 3, 2008).
[7] Reuters/University of Michigan Surveys of Consumers.
[8] "U.S. Michigan Consumer Index Falls to 16 Year Low," *Bloomberg News* (February 29, 2008)
[9] Zandi, "Washington Throws the Economy a Rope" (January 22, 2008) (available on-line at http://www.economy.com/home/article_ds.asp?cid=102598).
[10] Stettner, Allegretto, "The Rising Stakes of Job Loss: Stubborn Long-Term Unemployment Amid Falling Unemployment Rates" (National Employment Law Project/Economic Policy Institute, 2004).
[11] "Is a Lean Economy Turning Mean: Why It's Now Harder to Find a Job," *New York Times* (March 2, 2008).

separations from employment were all down at the end of 2007, compared to December 2006.[12]

Higher Unemployment Rates Today Than At Outset of Last Recession: The official unemployment rate in January 2008 was higher (at 4.9 percent) than in March 2001 (4.3 percent), when the last recession began. In January 2008, 7.6 million workers were officially unemployed, an increase of more than half a million in the past year. The number of "discouraged" workers grew to 467,000 in January 2008, the highest number in two and half years. Meanwhile, the number of individuals working part-time for economic reasons—that is, they cannot get fulltime hours—reached its highest level in four and half years, with 4.77 million such workers in January 2008. Taking into account all these workers, the true unemployment rate in January 2008 was 9.0 percent, up significantly from 8.3 percent just one year earlier and up even more sharply from the 7.3 percent rate that prevailed at the beginning of the 2001 recession.

Recent Surge in Unemployment Claims: Finally, unemployment claims have reached their highest levels since Hurricane Katrina, reinforcing the point that layoffs have already taken a major toll on the nation's workforce. For the week ending February 23rd, unemployment claims averaged over the prior four weeks rose to more than 360,000, the highest number since October 15, 2005. In addition, the total number of workers collecting unemployment benefits increased to 2.78 million (averaged over the prior four weeks), which exceeds the number who were collecting unemployment benefits when the last recession began seven years ago this month.

The New Realities of Long-Term Unemployment

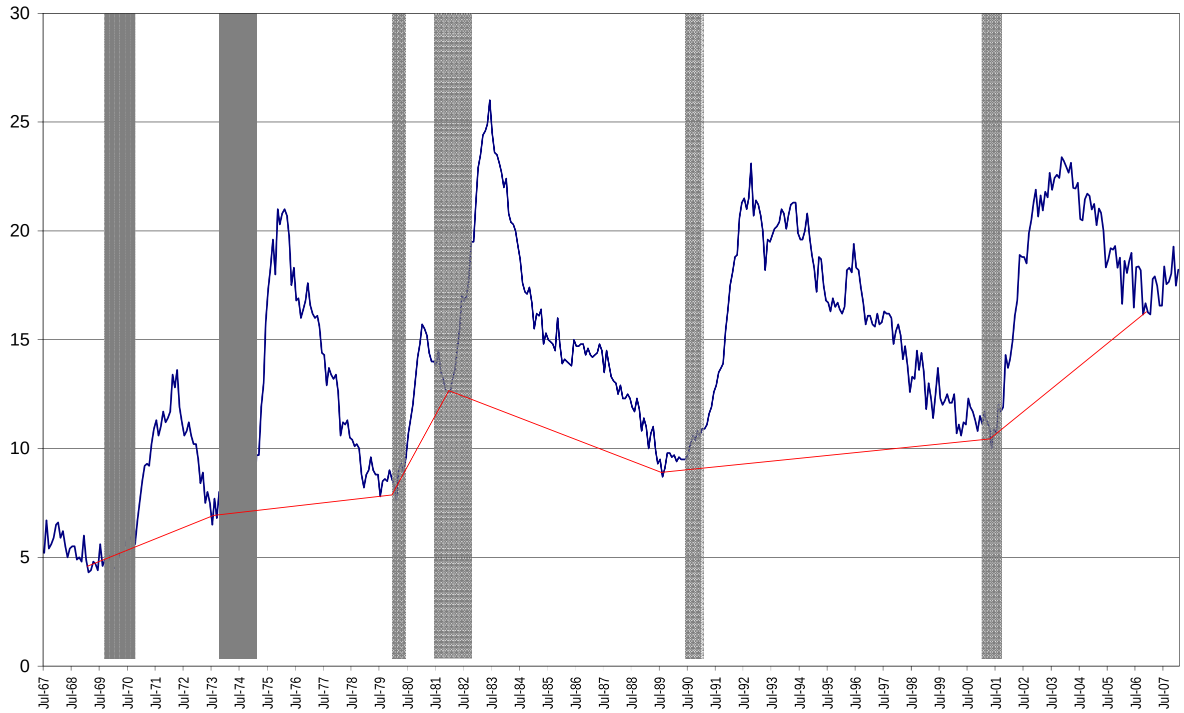
As the above data reflect, the overall picture of jobs and joblessness in today's economy is bleak for America's working families, and points to the need for extended unemployment benefits to boost economic growth. Further underscoring the need for a federal extension of jobless benefits, a record percentage of unemployed workers today remain jobless after actively looking for work for more than six months. Hailing from all walks of life, these jobless workers are struggling on limited income in a punishing economy to maintain their housing in the midst of the worst foreclosure crisis since the Great Depression and to pay skyrocketing costs for basic necessities, like food and gas.

Long-term Joblessness: No Comparison to Prior Recessions: High rates of long-term unemployment have persisted longer since the recession that ended in November 2001 than was the case with respect to the two preceding recessions, which ended in March 1991 and November 1982, respectively. In November 2002, one year after the most recent recession's end, the share of jobless workers unemployed for six months or longer (the "rate" of long-term unemployment) surpassed 20 percent, and it remained at or above that level for a record 32-month stretch. In contrast, the rate of long-term unemployment after the early 1990's recession exceeded 20 percent for a total of only 23 months, with the longest continuous stretch at the 20 percent or higher rate lasting 11 months. And the long-term unemployment rate exceeded 20

[12] U.S. Department of Labor Bureau of Labor Statistics, "Job Openings and Labor Turnover: December 2007," available online at http://www.bls.gov/newsw.release/pdf/jolts.pdf.

percent after the early 1980's recession for only 18 months. Moreover, while the rate of long-term joblessness returned to 10-to-11 percent of the unemployed after the past two recessions, it has remained above 16 percent since the recession of 2001 and is now again on the rise.

High Rates of Long-Term Unemployment Lasting Longer



Simply put: The problem of long-term joblessness is far greater today than at the beginning of our most recent past recessions. Additional measures underscore the greater severity of the problem:

- In March 2001, when the last recession began, the average worker was unemployed for 12.6 weeks before finding new work. And at the beginning of the preceding recession in July 1990, the average duration of unemployment was 11.9 weeks. <u>In sharp contrast, the average duration of unemployment in January 2008 was 17.5 weeks</u>.

- In January 2008, almost 1.4 million workers remained unemployed after actively looking for work for more than six months, up from 1.1 million just one year earlier, in January 2007. The January 2008 figure is more than twice the number who were long-term unemployed in both March 2001 (696,000) and in July 1990 (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 Diverse Profile of the Long-Term Jobless: The ranks of unemployed workers who are looking for jobs for longer periods of time are not limited to any particular demographic group, although certain groups of workers are over-represented in this category relative to their representation among the unemployed generally. As set out 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. Nearly two-thirds of the long-term unemployed are white, but African-Americans are over-represented in the category (28 percent) compared to their share of the unemployed generally (21 percent).

Perhaps not surprisingly given the continued loss of well-paying manufacturing jobs to trade and globalization, manufacturing workers are also somewhat over-represented among the long-term unemployed relative to their share of all unemployed workers (12 percent of the long-term unemployed compared with 10 percent of all the unemployed). However, workers employed in other sectors are significantly represented among the long-term unemployed as well, especially including those who worked in professional and business services (12 percent), wholesale and retail trade (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).

The Benefit Economic Impact of Jobless Benefits

Unemployment benefits provide one of the most effective means available to federal policymakers to immediately stimulate the economy and help prevent or forestall 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, and that at their peak, UI benefits saved an average of 130,000 jobs on an annual basis.[13] Unemployment benefits are targeted directly to those communities hardest hit by downturns; they flow with virtually no delay to affected workers; and because these workers, in turn, must spend their benefits to support themselves and their families, the money is quickly recycled through the economy.

As economist Mark Zandi notes, 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."[14] Mr. Zandi posits that part of the serious slump in consumer confidence following the 1991 recession was due to the initial refusal of the first President Bush to immediately extend jobless benefits.[15]

In addition to bolstering consumer confidence and sustaining consumer spending, extending unemployment benefits would have a potentially salutary impact on the home foreclosure crisis widely viewed as the trigger for today's economic downturn. Families of jobless workers spend more of their unemployment benefits to cover the costs of their mortgages and rent than for any other household item. According to a state survey, 41 percent of expenditures paid for with unemployment benefits were applied to housing costs. After housing, unemployment benefits were spent primarily on transportation (14 percent), food (13 percent), loans (12 percent) and health care (6 percent).[16] Another national study found that unemployment benefits reduced the chances that a worker will be forced to sell the family home by almost one-half.[17] In addition, unemployment 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.[18]

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[13] Chimerine, et al. "Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness Over Three Decades," U.S. Department of Labor, Unemployment Insurance Occasional Paper 99-8 (1999).

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

[15] 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.

[16] State of Washington, Employment Security Department, *Claimant Expenditure Survey, 2005* (January 2006)

[17] Gruber, "Unemployment Insurance, Consumption Smoothing, and Private Insurance: Evidence from the PSID and CEX," Advisory Council on Unemployment Compensation Background Papers, Vol. I (1995), at page 20.

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

Current Federal Extended Benefits Policy Fails the Unemployed

With an economy that has produced record rates of long-term unemployment, the need for an effective and reliable permanent program of extended unemployment benefits is more crucial than ever. What we have, instead, is a federal system of extended unemployment benefits that is far from reliable or effective, thus creating the necessity for a temporary extension of benefits.

The permanent federal program of "Extended Benefits" (EB) is so outdated in how it measures unemployment that no state now qualifies for the program, not even Michigan, which has had an unemployment rate exceeding 7 percent since August 2006. During the last recession, only six states qualified for EB, and during the recessions of the 1990's, only 10 states qualified for the program. In addition to the flawed "trigger" formula, the EB program requires the states to pay for 50 percent of the benefits, thus putting serious pressure on state unemployment trust funds at the very moment the demand is greatest to pay state benefits.

Because the EB program is so flawed, Congress has enacted a temporary extension of federal jobless benefits during the past five recessions. 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.[19] The extension that recently failed by one vote in the 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) were more generous, providing 20 to 26 weeks of extended benefits for all states, with extra weeks of benefits often available to states with especially high levels of joblessness.

Responding more effectively to the new realities of long-term unemployment, legislation is pending in both the Senate and the House 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, because the unemployment benefits provided by most states are so limited (averaging only $285 per week), the bill provides an extra $50 a week in federal extended benefits to help families cope with the rising costs of fuel, food and other basic necessities.

In the House of Representatives, Congressman James McDermott has introduced a bill to extend federal jobless benefits (H.R. 4934), providing 26 weeks of extended unemployment benefits for all states, as well as a $50 supplement in weekly unemployment benefits. In

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[19] 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).

contrast to the Senate bill, the McDermott measure does not provide extra weeks of benefits for 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.

Extending Jobless Benefits Now Will Help More Than Three Million Workers Who Will Exhaust their State Benefits This Year, Without Finding New Jobs

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 and will have neither new jobs nor extended benefits to help support them and their families. (Table 2). 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, a projected 1.3 million workers will exhaust their state unemployment benefits, and that number will likely increase to as many as 1.7 million workers from July to December 2008.[20]

Corresponding to the rise in long-term unemployment, today's jobless workers are more likely to exhaust their state unemployment benefits than in immediate past recessions. Based on an analysis of the latest available data (3rd Quarter 2007), 36 percent of all jobless workers collecting state unemployment compensation exhaust their 26 weeks of benefits without finding jobs. That compares with 32 percent in March 2001, when the last recession began, and 28 percent in July 1990, when the preceding recession began. As indicated earlier, more people are now collecting unemployment benefits (2.8 million), the highest level since Hurricane Katrina, and they, too, will be exhausting their benefits in the coming months.

The problem is especially severe in some of the nation's most populous states hit hard by the foreclosure crisis, which has had the cascading effect of generating layoffs in construction and financial services, and in public sector jobs affected by the fall-off in state revenues. In California, for example, the unemployment rate has increased nearly a full percentage point in the past year alone; it now stands at 5.9 percent, with more than a million unemployed workers. During this period, 433,000 workers exhausted their state unemployment benefits (up about 30,000 from the past year), and another 2.4 million workers applied for new benefits (up more than 200,000 in the past year). In Florida, also hit hard by the housing crisis, the unemployment rate has increased almost a percentage point in the past year (to 4.5 percent in December 2008), 136,000 workers have exhausted their state unemployment benefits (up 35,000), and more than 645,000 workers applied for new benefits (up 150,000 in the past year).

[20] 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).

Responding to the Argument that Unemployment Benefits Discourage the Jobless from Looking for Work

It is important to respond to the questionable argument made by some that jobless benefits should not be extended because they discourage the unemployed from looking for work. The reality is that the effect of unemployment benefits on the time spent unemployed is generally overstated, especially during recessions when the competition for jobs is most intense; and critics also ignore how jobless benefits contribute to improving the quality of jobs the unemployed eventually secure.

First, with regard to the research, the extent of the impact of unemployment benefits on the duration of unemployment is a subject of significant debate. While some researchers have found that a 13-week extension of benefits is associated with a two-week increase in the duration of unemployment,[21] others have recently concluded that the outcome varies significantly depending on the study design.[22] Still other studies have concluded that increases in the length of time workers are unemployed while on benefits is more a function of factors like an increase in manufacturing layoffs, not more generous unemployment benefits.[23]

Second, and perhaps most important, the argument conspicuously fails to account for the favorable impact on the quality of jobs that unemployed workers are able to secure with the help of their unemployment benefits. As described by leading UI authorities assembled by the U.S. Department of Labor, a primary objective of the program is to allow workers "the time needed to locate or regain employment that takes full advantage of [their] skills and experience."[24] Research conclusively shows that those collecting unemployment benefits receive more in pay and better benefits in replacement jobs, including health care, which is of special significance in today's economy.[25]

Finally, consider the fact that unemployment benefits only average $285 a week. Given these limited benefits, it is simply unfair and unreasonable to conclude that a typical unemployed worker, faced with seeking employment during a recession while also having to pay for the rising costs of housing, food, gas and home heating, would find the benefits themselves sufficient to reduce the aggressiveness of the job search. Indeed, a national poll of

[21] Woodbury, Rubin, "The Duration of Benefits" (in Unemployment Insurance in the United States: Analysis of Policy Issues: Upjohn Institute for Employment Research, 1997).

[22] Card, Chetty, Weber, "The Spike at Benefit Exhaustion: Leaving the Unemployment System or Starting a New Job?" (National Bureau of Economic Research: February 2007), at page 5 ("With respect to behavior at point of exhaustion, some (but not all) of the studies using survey data to measure job starts find evidence of a spike in the re-employment hazard, while most (but not all) of the studies using administrative data on job starts finds a relatively smooth hazard. Overall, the literature suggests that spikes in the exit rate around benefit exhaustion are generally smaller when duration is measured as time to next job rather than time unemployed.")

[23] Needles, Nicholson, "Any Analysis of Unemployment Insurance Durations Since the 1990-1992 Recession (Mathematica Policy Research, Inc., March 1999), at pages 6-7 ("The aggregate analysis concludes that changes in weekly benefit amounts or in average potential duration at the state level cannot explain the increase in average UI duration relative to historical patterns.")

[24] , Unemployment Insurance in the United States: The First Half Century (1993), at page 47 (quoting the U.S. Department of Labor, Committee on Unemployment Insurance Objectives, 1969)

[25] See footnote 18.

unemployed workers conducted during the last recession found that they applied for an average of 29 jobs a month, which is certainly an active and intensive effort to find work.[26]

In fact, during periods of recession, it is especially unconvincing to argue that extra benefits will negatively influence the work search of large numbers of workers. As former Federal Reserve Chairman Alan Greenspan argued in testimony before this Committee in 2002, "[W]hen you get into a period where jobs are failing, then the arguments that people make about creating incentives not to work are no longer valid and hence, I have always urged that in periods like this, the economic restraints on the unemployment insurance system almost surely ought to be eased to recognize the fact that people are unemployed because they couldn't be a job, not because they don't feel like working."[27]

The Official Unemployment Rate Should Not be Decisive With Respect to Extending Benefits, and Waiting for Further Increases in the Unemployment Rate Will Help Neither The Economy Nor the Long-Term Unemployed

Treasury Secretary Henry Paulson, the administration's chief economic spokesman, parted ways with leading national economists when he opposed an extension of jobless benefits to help stimulate the economy. According to Mr. Paulson, "with unemployment at 4.9 percent, to extend unemployment benefits would be unprecedented."[28] Subsequent statements by the President and others in his administration echo Mr. Paulson's views.

The administration's reliance on the national unemployment rate to refuse to extend jobless benefits is misplaced. First, this rationale fails to take into account the stark new realities of slow job growth and greater long-term unemployment, neither of which is adequately captured by the overall unemployment rate—and both of which are powerful reasons to extend unemployment benefits.

Second, the administration's argument ignores the new reality of the unemployment rate illustrated by the past two recessions, where the unemployment rate has lagged farther and farther behind in relation to the economic recovery. Thus, the unemployment rate does not increase substantially until the economy is already well into a recession. Excluding the last two cycles, since 1948 it took, on average, 1.6 months into an economic recovery for unemployment rates to peak.[29] In contrast, following the 1990-91 recession, it took 15 months for unemployment to peak. The lag was even longer for the 2001 recession, when it took the unemployment rate 19 months before it peaked. And the role of extended benefits is to stimulate the economy, thus forestalling or helping to minimize a recession. Waiting, as the administration proposes, to extend unemployment benefits <u>until</u> after unemployment has risen sharply—signally a recession is well underway or has ended—is akin to closing the door after the horse has left the proverbial barn.

[26] Peter D. Hart Research Associates, "Unemployed in America" (poll commissioned by the National Employment Law Project, April 2003).
[27] Testimony of Chairman Greenspan, quoted in "Senate Proposal to Add Unemployment Insurance Benefits Improves Effectiveness of Stimulus Bill (Center on Budget and Policy Priorities, January 231, 2008).
[28] "Official Urges Senate to Pass Stimulus Plan," *Bloomberg News* (February 6, 2008).
[29] "The Rising Stakes of Job Loss," at page 3.

For example, consider the experience of the last several recessions, when Congress and the President did not extend benefits until 12 to 16 months after the recessions began, thus failing to take advantage at the front end of the opportunity to avert or minimize the downturn. Indeed, in the case of the last extension, Congress waited until March 2002, four months after the recession ended to enact extended benefits. By that time, the unemployment rate had reached 5.7 percent, the number of workers exhausting unemployment benefits had increased from 192,000 (at the beginning of the recession) to 372,000 a month, and a total of 3.5 million long-term jobless workers had been left without any additional jobless benefits to support their families. When the recession began, the unemployment rate was 4.3 percent. January's 4.9 percent unemployment rate is thus well above the rate when the last recession began, and a larger number of workers (200,000 to 260,000 workers) are already exhausting their benefits every month.

The Administration's rationale also abandons the 20 states that economist Mark Zandi says are either already experiencing a recession or on the verge of doing so. These states' economies are the casualties of the sub-prime mortgage crisis, the continued loss of manufacturing jobs, and other forces beyond their control. Some of the states have especially high unemployment rates, but others do not, again reflecting the inadequacy of unemployment rates as measures of economic distress and the inappropriateness of relying upon them to determine when to implement a program of extended benefits after a downturn has begun.

Most importantly, what is more critical than the level of unemployment today is that the unemployment level has increased. The unemployment rate is a function of many factors, including labor force participation and the structure of the economy. However, whenever the unemployment level increases substantially, it is clearly going to be far harder for workers to find work before their regular unemployment benefits run out because of increasing competition for jobs. And the increase in unemployment that has already occurred foreshadows worse times to come. The level of unemployment increased by 13 percent from December 2006 to December 2007, and there has never been an occasion in the last 50 years when such a large annual jump did not precede a longer recession.[30] There is ample evidence that searching for work today is hard and will get worse—providing clear support for an extension of benefits.

Modernize the Unemployment Insurance Program

In addition to extending jobless benefits, Congress should address the serious gaps in the unemployment insurance 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 United States Government Accountability Office, low-wage workers are now twice as likely to become unemployed as higher wage earners, but they are one-third as likely to receive unemployment

[30] "Jobs Data Pass Threshold Where Recessions Dwell," *New York Times* (January 19, 2008).

benefits.[31] More than a decade ago, a bi-partisan Congressionally-chartered commission recommended state and federal reforms to address these concerns.[32]

Incorporating many of the federal commission's recommendations and the model state reforms already adopted by half the states, the House of Representatives recently passed legislation providing incentive grants for states to modernize their unemployment insurance programs (H.R. 3920, Title IV). A similar measure, the Unemployment Insurance Modernization Act (S. 1981), has strong bi-partisan support in the Senate. If enacted into law and embraced by the states, an estimated 500,000 low-wage and part-time workers will qualify for unemployment benefits under the modernized state programs.[33] The legislation is paid for from the federal unemployment trust funds by extending an unemployment surtax that has been in place for over 30 years. If swiftly passed, the legislation will go a long way to modernize the unemployment program and help stabilize the economy.

Conclusion

The nation's economy is in downturn and may well already be in recession. Job growth has slowed, and unemployment, while hovering still at around 5 percent, is higher now than at the beginning of the two most recent past recessions. In crucial respects, the labor market has <u>not</u> rebounded from the last recession. Job growth overall has been lackluster, at the same time long-term unemployment has been tenacious. Enacting a program of extended unemployment insurance benefits <u>now</u> would quickly move resources to working families that need them and will spend them, helping to stimulate demand, boost consumer confidence, and avert a more serious downturn. Failing to act now means that over the next year, three million jobless workers will run out of state unemployment benefits without finding new jobs or having a program of extended federal benefits to fall back on, to support themselves, their families and the nation's economy.

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[31] 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).
[32] Advisory Council on Unemployment Compensation, Collected Findings and Recommendations: 1994-1996 (1996).
[33] 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: 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.