Unemployment Insurance is Vital to Workers, Employers and the Struggling Economy

By

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The benefits of a strong unemployment insurance (UI) program take on special significance as the nation's economy continues to struggle and long-term joblessness keeps rising. As documented below, $10.7 billion dollars in federal unemployment benefits (paid for out of reserves already accumulated in the federal UI trust fund) have been pumped into state economies as a result of the temporary extension this year. (See Table 1 for state breakdowns) For the ten states with the highest unemployment, $3.7 billion in hard cash is now circulating in their struggling economies. Because Congress failed to act, this program will cease on December 28, 2002 and states will no longer have this crucial source of economic aid. According to our estimates, local economies will lose about $190 million of purchasing power for every week that passes without extended benefits in place.

Moreover, these figures do not take into account the documented ripple effects of the federal benefits or the increase in regular state-funded UI benefits now in circulation resulting from the growth in joblessness. Nor have these large sums of consumer spending been lost on most economists, including Federal Reserve Chairman, Alan Greenspan. When he testified this week before Congress, he stated in typically-reserved fashion that, “extended unemployment insurance provided a timely boost to disposable income.”

What follows is a summary of the basic purposes of the UI program based on statements from leading authorities. Also presented are the findings of the empirical research documenting the impact of the program compared with its stated goals. By outlining the goals of the program and the available research, this document provides a resource to policy makers and advocates seeking to explain the underlying rationale for state initiatives to strengthen the UI program

In the “Report of the Committee on Economic Security,” transmitted to Congress by President Franklin D. Roosevelt in 1935, the creation of the UI system was proposed to establish the “first line of defense” against economic hardship. The most authoritative recent statement of the intent of the UI program was drafted by the federal Advisory Council on Unemployment Compensation (ACUC) a bi-partisan body created by Congress in 1993 to evaluate the adequacy of the nation’s UI system. According to the ACUC (1996):

> The related goals of the UI program are providing involuntarily unemployed workers with adequate, temporary income replacement as well as automatically stabilizing the economy by using accumulated trust funds to maintain consumer spending during an economic downturn. Secondary goals include supporting the job search of unemployed individuals by permitting them to find work that matches their prior experience and skills, as well as enabling employers to retain experienced workers during layoffs.

This statement of the multiple goals of the UI program is consistent with other formulations expressed over the years since the program was enacted as part of the Social Security Act of 1935. Below, these specific goals are explored in more detail.

UI Alleviates Worker Hardship

> "The unemployed worker does not have to wait until savings and resources are exhausted to be eligible for it. Instead, unemployment insurance is designed to prevent poverty by immediately providing a cash payment to help the worker sustain some of the financial objectives normally supported by the lost wage income." Saul J. Blaustein, *Unemployment Insurance in the United States* (W. E. Upjohn Institute, 1993), at p. 51.

- **UI substantially reduces poverty.** During the last recession, UI prevented tens of thousands of workers from falling into poverty, according to an evaluation conducted by Mathematica Policy Research. In the study, Corson et al. (1999) find that without regular and extended UI benefits, over 70% of UI recipients would have fallen into poverty, compared to the 40% who experienced poverty after exhausting their regular UI benefits. Only one in ten of these workers were living in poverty before they started collecting UI. According to the same study, average weekly earnings were $676 when the workers first became unemployed. Without federal extended benefits, their average earnings would have amounted to just $183 a week.

- **Keeping food on the table.** Rigorous economic research has demonstrated that UI plays a substantial role in preventing workers from being forced to cut back on meals. M.I.T. economist Jonathan Gruber (1997) concludes that without UI, unemployed workers would consume 22% less food compared to when they were working. Tracking UI recipients over time, Gruber finds that food consumption returns to normal levels after re-employment thus illustrating how the program effectively tides workers over when the help is needed most.

- **Maintaining the family's housing.** By providing workers the income they need to keep their homes while they find a new job, UI offers workers, their families, and communities important stability. The presence of UI reduces the chances that a worker will be forced to sell the family home by almost one-half. It also prevents a potential 23% drop in spending on rental or mortgage payments. (Gruber, 1995).

- **Preserving hard-earned savings.** UI also enables some workers to hold on to their hard-earned savings through periods of unemployment. UI benefits, by themselves, prevent workers from losing about 36% of their wealth. (Gruber, 1999). Moreover, Gruber's research (1999) indicates that the average worker only had sufficient financial assets to cover 5.4 weeks of unemployment.

- **Workers on UI have few other sources of support.** In a recent Washington State survey, two-thirds of UI recipients indicated that UI provided their household's main source of income, and one-third said it was their only source of income. Other research confirms that workers on UI have few other means to support themselves. Corson et al. (1999) find that less than one in ten unemployed workers accessed other forms of income support (food stamps, welfare, retirement savings, or social security) while collecting UI.

- **Workers spend UI on their basic family needs.** In Washington State (2002), families receiving UI spend 104% of their income (meaning, on average, families go into debt) while comparable households spend only 88.5% of their income. Washington families on UI spend 41% of their household budget on housing and 13% on food, thus spending more on these basic necessities than other consumers in the Western U.S (surveyed through the Consumer Expenditure Survey).

UI Stabilizes the Economy

> "By maintaining essential consumer purchasing power, on which production plans are based, the program provides a brake on down-turns in business activity, helps to stabilize employment, and lessens the momentum of deflation during periods of recession."
> U.S. Department of Labor, Bureau of Economic Security,
> *Unemployment Insurance: Purposes and Principles* (December 1950), at p. 1.

- **In recessions, UI saves jobs and fuels local economies.** An extensive study by the prominent economist Lawrence Chimerine (1999) demonstrates that UI has greatly reduced the negative impact of the last five recessions. Chimerine finds that UI saved an average of 131,000 jobs in each down-turn, and quelled the drop in production (as measured by Gross Domestic Product) by 15%. Moreover, when workers spend UI dollars on basic goods, the money ripples through the economy and creates additional business. Chimerine estimates that each $1 of UI leads to $2.15 of economic growth. Moreover, Chimerine's research asserts that UI has become an even more substantial economic stabilizer over time, thus increasing its impact during the last recession compared with the recession of the 1980s.

- **During this recession, UI has already contributed billions of dollars to struggling local economies-but Congressional inaction will cause that aid to end on December, 28th.** In March, Congress enacted the Temporary Extended Unemployment Compensation program (TEUC), which is paid for entirely out of the federal unemployment trust fund. Since the program began in March, the program has pumped an estimated $10.7 billion into local economies throughout the nation (see attached table for state breakdowns). Thus far, the TEUC program has contributed $3.7 billion to the economies of the ten states with the highest unemployment, not counting the ripple effect documented in the Chimerine study. The stronger the state's UI program, the greater the boost to the state's economy. The economy will lose this strong and greatly needed economic stimulus on December 28, 2002. the House of Representatives and the Administration failed to act on a unanimously passed Senate bill to extend the program beyond this original cut-off date.

  This TEUC investment is in addition to the automatic upsurge in regular state UI benefits which has contributed billions of dollars more to those economies hit hardest by unemployment. For example, NELP recently documented how the UI system has played a key role benefiting Washington State's economy, which is now suffering from 7.4% unemployment (the second highest rate in the nation). In Washington State, the regular state UI program has added about $800 million to the economy since the recession began. (Smith, et. al, 2002). When the extra $542 million thus far contributed as a result of the federal extension of unemployment, over $1 billion has been added to Washington's economy as a result of the UI program.

UI Makes the Labor Market Function Better for Workers

"Unemployment insurance is of value to the worker, not only as a partial replacement of his lost earnings, but as an aid in preserving his skills for a reasonable period of time until he can find suitable work. The unemployment insurance claimant can refuse unsuitable work and still receive his benefits. He thus can avoid having to take jobs far below his skill and abilities which may downgrade his status and make it more difficult for him to 'land' a suitable job when it becomes available." William Haber & Merrill Murray, *Unemployment Insurance in the American Economy: An Historical Review and Analysis* (Richard D. Irwin, Inc., 1966), at p. 34.

- **UI maintains worker's earnings after unemployment.** UI enables workers to find jobs that match their previous skills and earnings. Kiefer and Neumann (1979) estimate that the re-employment wage was $240/higher per month than it would have been without average UI benefits (economists refer to this concept as the reservation wage). This result is quite substantial given that average monthly wages were just $600/month in their sample of Pennsylvania workers. Looking at experienced older male workers alone, Ehrenberg and Oaxaca (1976) similarly find that UI benefits lead to a 30% higher re-employment wage. Fishe (1982) estimates a smaller but significant effect for Florida workers (a state with an especially restrictive UI program), finding that UI benefits lead to a 12-14% increase in the re-employment wage.

- **UI helps preserve jobs skills.** UI enables laid off workers to return to their previous jobs during temporary economic downturns. Getting rehired by a prior employer is among the best outcomes for unemployed workers, who can earn extra wages for the firm specific skills they have developed. (Katz & Meyer, 1990).

- **"Partial" UI keep workers attached to the labor market.** Workers can collect UI when they are "partially" unemployed, which most often includes those workers who hours were reduced from full to part-time employment. With UI, these workers remain firmly attached to the labor market as they seek permanent opportunities that match their previous earnings and skills or they are able to return to full-time employment with the current employer. These claims account for 9% of all weeks of UI benefits that are compensated in the United States. (Vroman, 2001).

- **UI provides a strong incentive for workers to stay in the labor market.** The safety net provided by UI helps "makes work pay" for many families. This is especially true for people who are less attached to the labor market, including many women coming off of welfare. A carefully specified econometric model developed by Hamermesh (1980) indicates that UI benefits draw significant numbers of married women into the labor force.

UI Provides a More Stable Labor Force to Employers

"[T]he payment of unemployment compensation to his former employees is of advantage to an employer during short layoffs, since it tends to preserve his labor force intact until he can re-employ it. Workers are not forced to scatter in search of jobs, at least during short layoffs. While this restricts the mobility of labor, it is of value to the employer, as well as the worker and community." William Haber & Merrill Murray, *Unemployment Insurance in the American Economy: An Historical Review and Analysis*, (Richard D. Irwin, Inc., 1966), p. 34

- **With UI, employers are able to preserve their existing workforce.** UI policies have evolved in many states to make special allowances for employers to maintain their workforce with the help of UI benefits. For example, 18 states operate "short-time compensation" programs, allowing companies to retain their workers while cutting back their hours. The reduced hours are then compensated for in part by the UI system. In another seven states, employers file UI claims on behalf of groups of workers who remain employed during regularly scheduled production slowdowns. During these temporary layoffs (often coinciding with holiday schedules), workers are exempted from having to look for other work so that they will return promptly once they are recalled.

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Table 1: Temporary Extended Unemployment Compensation Payments by State (March-December, 2002)

	Actual Extended Benefits Paid, March-October (in millions of $)	Estimated Extended Benefits Paid, March-December (in millions of $)			Actual Extended Benefits Paid, March-October (in millions of $)	Estimated Extended Benefits Paid, March-December (in millions of $)
United States	$8,998.9	$10,705.2		Missouri	$96.0	$118.3
Alabama	$66.4	$77.0		Montana	$10.0	$11.5
Alaska*	$20.5	$24.4		Nebraska	$19.8	$24.4
Arizona	$53.0	$60.6		Nevada	$57.7	$65.0
Arkansas	$45.6	$56.2		New Hampshire	$9.4	$11.8
California*	$950.1	$1,227.0		New Jersey	$694.0	$782.9
Colorado	$130.5	$159.2		New Mexico	$21.1	$27.5
Connecticut	$128.8	$158.2		New York	$815.0	$979.5
Delaware	$14.7	$18.8		North Carolina*	$282.2	$352.2
D.C.*	$27.6	$33.6		North Dakota	$4.7	$5.2
Florida	$294.4	$358.8		Ohio	$299.7	$356.8
Georgia	$170.7	$207.8		Oklahoma	$47.2	$58.3
Hawaii	$42.3	$46.9		Oregon*	$242.7	$292.1
Idaho	$27.9	$32.1		Pennsylvania	$659.7	$756.8
Illinois*	$512.1	$622.3		Rhode Island	$37.2	$44.5
Indiana	$119.8	$141.5		South Carolina	$101.7	$120.0
Iowa	$56.0	$67.6		South Dakota	$2.6	$3.1
Kansas	$48.1	$62.4		Tennessee	$140.2	$169.7
Kentucky	$87.3	$105.4		Texas*	$454.3	$544.2
Louisiana	$51.0	$61.7		Utah	$131.9	$133.4
Maine	$17.5	$20.5		Vermont	$10.4	$13.4
Maryland	$91.5	$111.5		Virginia	$101.4	$133.1
Massachusetts	$543.2	$606.4		Washington*	$435.5	$542.4
Michigan	$416.2	$485.0		West Virginia*	$21.4	$26.8
Minnesota	$148.7	$179.6		Wisconsin	$123.2	$152.2
Mississippi*	$43.0	$52.3		Wyoming	$2.5	$3.5

* Refers to the 10 highest unemployment states as of October, 2002

Prepared by the National Employment Law Project

Source: U.S. Department of Labor Office of Workforce Security

Table 2: Total Weekly Value of Federal Extended Unemployment Benefits by State

	Weekly Number of Workers Receiving Federal Extended UI Benefits^	Average Weekly Benefit Amount*	Total Value of Weekly Benefits
Alabama	8,411	$163.28	$1,373,372
Alaska	2,670	$159.15	$424,934
Arizona	8,151	$176.74	$1,440,690
Arkansas	5,054	$205.43	$1,038,297
California	115,977	$198.04	$22,968,582
Colorado	11,189	$307.53	$3,441,040
Connecticut	11,479	$247.22	$2,837,855
Delaware	1,873	$226.01	$423,389
DC	2,464	$246.05	$606,342
Florida	33,527	$217.56	$7,293,966
Georgia	18,181	$213.57	$3,882,819
Hawaii	2,057	$336.28	$691,831
Idaho	2,631	$234.75	$617,639
Illinois	41,630	$277.70	$11,560,803
Indiana	10,719	$248.06	$2,658,986
Iowa	4,499	$208.06	$936,049
Kansas	5,872	$234.08	$1,374,596
Kentucky	9,202	$255.98	$2,355,613
Louisiana	6,718	$165.71	$1,113,276
Maine	1,822	$217.58	$396,501
Maryland	10,172	$241.86	$2,460,163
Massachusetts	26,677	$303.77	$8,103,735
Michigan	36,710	$256.80	$9,427,318
Minnesota	10,855	$305.75	$3,319,018
Mississippi	5,917	$162.12	$959,239
Missouri	12,044	$200.92	$2,419,863

	Weekly Number of Workers Receiving Federal Extended UI Benefits^	Average Weekly Benefit Amount*	Total Value of Weekly Benefits
Montana	N/A	N/A	N/A
Nebraska	2,421	$114.86	$278,111
Nevada	4,723	$225.20	$1,063,620
New Hampshire	1,383	$154.02	$213,016
New Jersey	40,790	$318.32	$12,984,262
New Mexico	2,312	$216.12	$499,679
New York	63,104	$278.19	$17,554,989
North Carolina	25,499	$258.80	$6,599,164
North Dakota	417	$179.93	$75,033
Ohio	26,583	$242.50	$6,446,534
Oklahoma	4,921	$229.89	$1,131,351
Oregon	21,781	$291.37	$6,346,140
Pennsylvania	46,289	$282.27	$13,065,836
Rhode Island	2,728	$294.60	$803,657
South Carolina	11,799	$205.05	$2,419,368
South Dakota	400	$190.32	$76,193
Tennessee	14,627	$204.98	$2,998,332
Texas	44,696	$233.24	$10,425,100
Utah	3,460	$239.28	$827,814
Vermont	1,185	$248.59	$294,491
Virginia	10,505	$312.78	$3,285,754
Washington	38,887	$323.95	$12,597,385
West Virginia	2,971	$208.86	$620,588
Wisconsin	14,325	$200.68	$2,874,787
Wyoming	429	$190.65	$81,852
National Total	805,763		**$197,688,975†**

^ Average "continued" claims for the federal extended benefits program (latest 3-week average 10/12-10/26)
* 7-month average of TEUC (Temporary Extended Unemployment Compensation), Average Weekly Benefit Amount
†Under the permanent federal extended benefits program, workers in Washington, Oregon and Alaska would continue to receive extended UI benefits after the temporary program expires on December 28th. These benefits are paid 50% by the federal government and 50% by the states. Taking into account the state share for the benefits paid in Washington, Oregon and Alaska, the national total per week is $188 million.

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Source: U.S. Department of Labor Office of Workforce Security