

**ONE YEAR LATER: RESTORING ECONOMIC  
SECURITY FOR WORKERS AND THE NATION**

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**HEARING**  
OF THE  
**COMMITTEE ON HEALTH, EDUCATION,  
LABOR, AND PENSIONS**  
**UNITED STATES SENATE**  
**ONE HUNDRED SEVENTH CONGRESS**  
**SECOND SESSION**  
ON

EXAMINING UNEMPLOYED AMERICANS IN THE CONTEXT OF THE CURRENT ECONOMIC SITUATION, FOCUSING ON TEMPORARY EMERGENCY UNEMPLOYMENT COMPENSATION (TECU) REFORM

SEPTEMBER 12, 2002

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# **ONE YEAR LATER: RESTORING ECONOMIC SECURITY FOR WORKERS AND THE NATION**

**THURSDAY, SEPTEMBER 12, 2002**

U.S. SENATE,  
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,  
*Washington, DC.*

The committee met, pursuant to notice, at 10:28 a.m., in room SD-106, Dirksen Senate Office Building, Hon. Edward M. Kennedy (chairman of the committee) presiding.

Present: Senators Kennedy and Reed.

## **OPENING STATEMENT OF SENATOR KENNEDY**

The CHAIRMAN. We will come to order.

We first of all want to express apologies to our witnesses for the delay. They scheduled an unexpected vote earlier, which necessitated my presence.

I look forward to hearing our witnesses, and I welcome all those who have come to this hearing to hear about an enormously important challenge that our country is facing with regard to working families.

Last September 11, our Nation and our way of life were attacked. Our hearts remain heavy because of the losses that our Nation and our people suffered on that day.

The events of September 11 made clear that America's workers are true heroes. The pictures of tired, dust-covered firefighters and law enforcement officers confronting unimaginable horror that day are permanently emblazoned in our minds, and so also is the memory of their service to our country.

September 11 was an attack not just on our cities and our citizens but on the entire American economy. No one can truly weigh the loss of life. But the loss of property amounts to tens of billions of dollars. We can redress that, and we will. But the loss and the risk went far beyond Ground Zero in New York, at the Pentagon, or in Pennsylvania.

Americans stopped flying and stopped buying. Corporations put investment decisions on hold. Hundreds of thousands lost their jobs in companies across the economy, in airlines and hotels, in restaurants and retailers, in manufacturers and businesses of every size.

Felix Batista, who is here with us today, lost his job and lost many friends as well. Seventy-three of Mr. Batista's coworkers at Windows on the World in New York lost their lives at the World Trade Center.

Never before has it been so clear how interconnected our society is. In the past year, more than 19 million workers like Mr. Batista have lost their jobs. Some have found new ones. But today, more than 8 million Americans are out of work through no fault of their own. For them and their families, life is a continuing ordeal of missing paychecks, unpaid bills, lost health insurance, no job on the horizon. One in five unemployed workers has been out of work for 6 months or more—too many months of looking for work and hearing “No” after “No” after “No.” Two million of those workers will run out of their unemployment benefits by the end of this year.

The corporate scandals contributed to the decline in the economy as well. Alan Gonsenhauser of Northborough, MA is one of those workers about to exhaust his benefits. Formerly the vice president of a Massachusetts consulting firm whose largest client was Enron, he was laid off last December. Nine months later, he is still looking for a job. He, his wife and their two children can rely on unemployment benefits and personal savings to cover family expenses, but his benefits will expire this Saturday.

Estimates show that we have lost more than 160,000 jobs because of the corporate scandals. What these workers do not need is more tax breaks tilted to the wealthy. What they do need is more measures to heal the economy and help those who need and deserve our support the most.

These unemployed workers need a benefits extension. In the last recession, unemployment benefits were extended four times. At its peak, an additional 33 weeks of benefits were provided. That enabled workers to keep a roof over their heads, food on the table, and it also helped to jumpstart the economy.

Sadly, not all workers receive unemployment benefits when they are laid off. Too many low-wage workers are left out of the unemployment system because they recently joined the labor force or are seeking part-time work. In addition, today’s benefit checks are too low for many families to afford their basic necessities—food, rent, electricity, and health care.

It is long past time to meet these needs by extending unemployment benefits, by covering low-wage and part-time workers, and by raising benefit levels. In doing so, we can make a significant difference for workers and also for our economy.

The Bush Administration has resisted our efforts to provide adequate unemployment assistance and health insurance coverage to workers still searching for new jobs in this weak economy. But the administration can no longer afford to ignore the pain and the needs of these struggling families. We must act—and act now—to live up to our obligations to help our fellow citizens in their time of need.

We must not ignore the plight of millions of Americans hurt by forces beyond their control. We must work together to get our economy moving again and see that no one is left behind.

I look forward to hearing more about these issues from our witnesses today.

Dr. Larry Mishel is the new president of the Economic Policy Institute. He is co-author of “The State of Working America,” an annual EPI publication that provides a comprehensive look at the economy as it is experienced by America’s working people and their

families. His areas of expertise include labor economics, wage and income distribution, industrial relations, productivity growth, and the economics of education.

Dr. Mishel, we look forward to hearing from you.

**STATEMENTS OF LAWRENCE MISHEL, PRESIDENT, ECONOMIC POLICY INSTITUTE, WASHINGTON, DC; WENDELL PRIMUS, DIRECTOR OF INCOME SECURITY, CENTER ON BUDGET AND POLICY PRIORITIES, WASHINGTON, DC; AND FELIX BATISTA AND NAPOLEON MORALES, UNEMPLOYED WORKERS, NEW YORK, NY, ON BEHALF OF THE NEW YORK UNEMPLOYMENT PROJECT**

Mr. MISHEL. Thank you very much, Senator.

Thank you for the opportunity to discuss our Nation's current employment and unemployment situation. As you know, unemployment has been increasing fairly steadily since October 2000, rising from 3.9 percent to its current level of 5.7 percent, with over 8 million workers unemployed.

Although the economy has been growing this year, the growth has not been strong enough to create jobs and keep unemployment from rising. Although unemployment dipped slightly last month, the consensus among economists, including those at CBO, is that unemployment will rise and stay at a level near or above 6 percent throughout this year and next.

The economy is not creating enough new jobs to keep up with population growth and productivity improvements. There were only 39,000 jobs created last month, with no job growth in the private sector. Yet we need at least 120,000 new jobs each month just to accommodate new entrants into the labor force.

The fast productivity growth we enjoyed means that the economy can grow by roughly 2 to 2.5 percent without adding any new jobs. Thus, the economy has to grow at least 3 to 3.5 percent just to keep unemployment from rising, and it has to grow much faster than that so we can get back to the 4 percent unemployment rate that we need to obtain.

The job shortfall in the economy can be illustrated in two ways. First, we now have 1.8 million fewer jobs in the private sector than we did in October 2000. That is a 1.7 percent decline. The job loss in this recession is as large as that of the early nineties recession or the 1980's recession. So by that measure, this is not mild.

Second, the Bureau of Labor Statistics has a new series on job openings that starts in December 2000. That shows that job openings have declined by a million, while the number of people unemployed has grown by 3.2 million. The result is that there is a 5.4 million job gap between the number of job openings and the number of unemployed. So there are now roughly three unemployed workers for every job opening.

This is why I think Congress should not be complacent about the current 5.7 percent unemployment rate. First, as I mentioned, unemployment will rise further in the future. Second, the lessons of the late 1990's are that we can achieve a 4 percent unemployment rate and that that level of unemployment is needed to generate broad-based income growth. Third, the high unemployment we are experiencing has already caused wages to grow more slowly for

those who are employed, especially among low-wage workers, whose wage growth now no longer exceeds inflation. Wage growth among middle-wage workers now is about half what it was just a few years ago in terms of how fast it is relative to inflation, the real wage growth. So the economy affects not only the unemployed; it affects those people who are employed by lowering the rate of wage growth.

Last, 5.7 percent is not a good indication of the unemployment experienced by many groups. Blue-collar workers have unemployment at roughly 9 percent; construction workers, roughly 10 percent; blacks, 10 percent; Hispanics, 7.5 percent. And if you are a young black man or woman with just a high school education, the unemployment rate that you face is 24 percent. So 5.7 percent is an average; it does not really reflect a lot of people who are really hurting.

The Nation thus has a serious and persistent job problem that needs to be addressed. One way to address it is through a coordinated policy with our trading partners to lower the dollar, which is one of the reasons why we are having a manufacturing crisis. But there are other mechanisms that Congress can act through legislation to help.

One, we need to cushion the impact of unemployment on those directly affected, as the Senator has already suggested. Second, we need the Government to stimulate demand. Businesses need more customers. We have lots of unemployed. We have lots of excess capacity. If they have customers, they will make profits, they will invest, they will hire workers. The only way to do that at this point in my view is by boosting Government spending by about \$100 billion a year for each of the next 2 years.

We should not hesitate to do this even though it will increase the deficit in the short term. In fact, we cannot stimulate demand unless we add to the deficit. At the same time, an appropriate Government stimulus should not and need not affect our fiscal balance over the long run. We need to increase spending in the short term, but not have it be permanent.

Extending unemployment insurance and improving the unemployment insurance system will serve both goals of assisting those in need and stimulating the economy. We can also use existing programs to inject expenditures into the economy. One area is school repairs, where there is lots of need for schools to repair their buildings and facilities, and we have existing programs that we can funnel billions of dollars through and get the work done very quickly.

Another area that I would recommend is fiscal relief to the States. The States have some \$40 to \$50 billion in shortfalls. When that happens, they raise taxes and cut services, both of which exacerbate a recession, and it is the Federal Government's role in my view to help offset those results.

We also know what the Government should not do. Economic policy should not be targeted at restoring stock prices. We do not know what level of the stock market is correct or how to affect stock prices. Nor do we want to provide a safety net for day traders. Rather, we should focus on creating a better market for stocks through reliable accounting and transparency. It is best to work on



improving the real economy and have the stock market rise accordingly.

Thank you. I look forward to your questions.

The CHAIRMAN. Thank you very much. We will come back to questions.

[The prepared statement of Mr. Mishel follows:]

#### PREPARED STATEMENT OF LAWRENCE MISHEL

Thank you for the opportunity to discuss our Nation's current employment and unemployment. As you know, unemployment has been rising fairly steadily since October 2000, rising from 3.9 percent to its current level of 5.7 percent, with 8.1 million workers unemployed. Although the economy has been growing in 2002, the growth has not been sufficiently fast to create jobs and keep unemployment from rising. We now have 1.7 percent fewer private sector jobs than in October 2000. Moreover, current slow growth will generate few jobs and will lead unemployment to grow further—perhaps to 6.5 percent or more—and to remain above 6 percent for at least another year or so. The Nation, thus, has a serious jobs and unemployment crisis that needs to be addressed in two ways. One, we need to cushion the impact of this recession on those directly affected. Second, we need to generate growth by stimulating demand—that is, by creating more customers for business. The fastest, most effective way to do this is by boosting government spending quickly and for the next year or so. Extending unemployment insurance and improving the unemployment insurance system will both assist those in need and stimulate demand quickly.

#### TODAY'S JOB SITUATION

The Bureau of Labor Statistics just released their survey on employment and unemployment for August 2002. Unemployment stands at 8.142 million, 5.7 percent of the labor force. Although 39,000 jobs were created last month, the number of private sector jobs did not expand and are still 1,833,000, or 1.7 percent, lower than in October 2000. Many economists, including me, believe that the 0.2 percent drop in unemployment last month is a temporary dip that will be followed by a ratcheting up of unemployment over the near term.

It is true that this unemployment rate is low relative to the unemployment reached in the recessions of over the last thirty years (though sizeable relative to those of the 1950–73 period). There are a number of reasons, however, not to be complacent: unemployment will rise further; our target for unemployment should be 4 percent, and not being there has significant adverse consequences; and, when average unemployment is at its current levels some segments of the workforce experience very high unemployment.

The important point about today's unemployment is that it is 1.8 percent more than the 3.9 percent rate we had just 2 years ago, an increase equivalent to 2.6 million more unemployed workers. Although an unemployment rate of 5.5–6 percent used to be considered acceptable, and any lower rate considered potentially inflationary, we now know that this conventional wisdom was and is wrong. The late 1990s have reestablished that 4 percent is the benchmark target for unemployment, one that facilitates broad-based noninflationary growth. The costs of not being at 4 percent unemployment are substantial, as discussed below. Unfortunately, despite the dip in unemployment last month, it is reasonable to expect unemployment to rise over the next 6 months and to stay above 5.5 percent, if not 6.0 percent, throughout 2003.

The explanation is simple. In order for the unemployment rate to drop, the economy must grow faster than productivity plus the growth rate of the labor force. This is because productivity allows us to generate more goods and services without expanding employment and the economy needs to continuously absorb new workers (recent high school or college graduates and other “new entrants” or “reentrants”). Given that the long-term productivity trend is from 2.0 to 2.5 percent and the labor force trend is 1.0 percent, the economy must grow at a 3.0 to 3.5 percent rate just to keep unemployment from rising. It takes a growth rate of 4.0 to 4.5 percent to allow unemployment to drop 0.5 percent.

Even though the economy began growing over the last three-quarters, growth has been so slow (0.1 percent, 1.4 percent, 2.1 percent) that very few jobs have been created and unemployment has risen giving us a relatively “jobless recovery.” The unemployment rate would have grown further had the labor force expanded at its recent historical rate. We estimate that the current recession in the labor market has

kept roughly 2.2 million people from seeking employment—a group not captured in the unemployment rate. Had just half of the workers in this “hidden unemployment” been in the labor force the current unemployment rate would be close to 6.5 percent.

There are several reasons why unemployment will grow. First, the impact of the recent slow growth has not yet been fully felt, since unemployment “lags” behind growth. Second, growth through the end of this year is forecasted to be at the 2.5 percent to 3.0 percent rate and for next year is at about 3.5 percent, a growth rate not sufficient to set us on a track to achieve 4 percent growth anytime in the next few years. This is the conclusion of the CBO, OMB and the Blue Chip consensus. For example, the Blue Chip survey of forecasters finds that two-thirds of the forecasters do not believe that unemployment has peaked. Moreover, forecasters expect unemployment to peak at 6.2 percent, 0.5 percent more than today’s rate. Third, unemployment will be higher than typically forecasted because if and when growth accelerates the labor force will expand more rapidly, making up for the very slow labor force growth (especially in the share of the adult population in the labor force) over the last 2 years. For instance, from July 2001 to July 2002 the labor force grew by just 0.5 percent. My conclusion, I am sorry to say, is that the unemployment situation will grow worse before it gets better and unemployment will stay high through 2003.

It is also important to note that the national unemployment rate is an average that conceals low unemployment among some groups but very high unemployment among others. Therefore, complacency in the face of roughly 6.0 percent unemployment is inappropriate. For instance, the unemployment rate has averaged 5.8 percent over the last 3 months. This includes groups with unemployment rates that are low: professionals and managers, 3.1 percent; college graduates, 2.8 percent; and government workers, 2.4 percent. Other groups, however, have very high unemployment rates such as construction workers (9.6 percent), those with less than a high school degree (8.4 percent); and blue-collar operatives and laborers (8.7 percent). Especially, notable is the higher unemployment rates of minorities, with blacks at 10.1 percent and Hispanics at 7.5 percent. Most worrisome is that some disadvantaged groups, such as young (ages 16–25) black men and women with a high school degree have unemployment rates of roughly 24 percent. This is especially relevant to concerns about the success of welfare policy in the current environment.

The higher unemployment rate has had, and will continue to have an adverse impact on working families. The impact of the recession obviously falls on those who become unemployed. Less well appreciated is that the unemployment rate does not adequately reflect the number of workers who become unemployed at some time during the year, a number two to three times as large as the number of unemployed at any one point in time. As unemployment rises so do other forms of underemployment, ranging from workers in part-time jobs who want full-time jobs, workers in temporary jobs who want permanent, regular jobs and those who are working at jobs for which they are overqualified. We have already seen that higher unemployment can affect those who are employed by leading to slower wage growth. Wages are still growing faster than inflation but at only half the pace of a few years ago (at roughly 1 percent rather than 2 percent real growth). Wage growth has decelerated the most for low-wage workers whose wages are now barely keeping up with inflation. The wage growth among middle-wage men has also been substantially reduced. Consequently, we are now seeing a return of the widening of the wage gap between low and middle-wage workers as well as the continued growth in the wage gap between high-wage and middle-wage workers. In other words, the recession is reestablishing the trend toward an across the board widening of wage inequalities, something we haven’t seen since the mid-1990s. The bottom line is that higher unemployment is lowering family incomes—by \$1,800 this year for a middle-income family—and leading to wider inequalities.

Another way to examine the costs of high unemployment is by appreciating the benefits of the period of low unemployment that prevailed from 1995 to 2000. We saw broad-based real wage growth for the first time in two decades. Job quality improved as health insurance and pension coverage improved, part-time work diminished, self-employment shrank, and the need to work two or more jobs declined. Family incomes across the board rose and the income and wage gaps by race shrank for the first time in years. All of this is to say, we certainly miss those days of low unemployment and we need to get back to them as quickly as possible.

#### CHARACTERISTICS OF THE CURRENT RECESSION

There are characteristics of the current recession that are noteworthy. In particular, when compared to earlier recessions: the private sector job loss has been more

severe, the rise in unemployment has been broadly shared by gender and education; and, college graduate unemployment has risen more. Plus, there has been an usually large increase in the duration of unemployment—how long people stay unemployed—as witnessed by the historically large share of the unemployed who are long-term unemployed.

This recession can be judged (so far, at least) to be shallow, because of the relatively low increase in unemployment. What has not been noticed, however, is that there has been an even more severe loss of private sector jobs in this downturn. In particular, private employment has declined 1.7 percent, or 1,833,000 jobs, a larger decline at this point in the cycle than in the recessions of the early 1980s and 1990s. This reflects the severe loss of manufacturing jobs and the stagnant growth of private sector service jobs. Increased employment by government is a singular bright spot. The private sector job loss is the downside of the relatively fast productivity growth we have enjoyed.

There has been a more uniform increase in unemployment in this recession so that this recession is affecting a broader array of the workforce. For instance, the unemployment rate has grown comparably among those with “some college”, a high school degree and those without a high school degree. In prior recessions, in contrast, unemployment rose much more among those with less education. Unemployment among women has risen almost as much as among men, a stark contrast with earlier recessions which were more targeted at men. This gender pattern reflects the heavy job losses in the female-intensive service industries. It is interesting to note, in this regard, that the unemployment rate among college graduates has risen more than in the early 1990s and is on par with the much steeper increase during the early 1980s recession.

There is one way that this recession’s impact is more narrowly focused—those who became unemployed tend to stay unemployed longer. In August there were 1,474,000 workers unemployed for more than 27 weeks, comprising 18.1 percent of the unemployed. This is a larger share of the unemployed than was the case at this point in the business cycle in the 1970s and 1990s but less so than in the early 1980s recession (Figure A). This longer duration of unemployment suggests a greater mismatch between the types of jobs available and the types of workers that are unemployed. Obviously, an increase in long-term unemployment suggests the continued need for extended benefits in the unemployment insurance system.

#### POLICY TARGETS: STOCKS AND EMPLOYMENT

It is understandable that there has been much media discussion of the fall of stock prices over the last few months, with the Dow falling 10.4 percent, the NASDAQ falling 14.5 percent and the S&P 500 falling 10.4 percent since June. Yet, economic policy should not target getting stock prices back up as a goal, even though the losses are painful to some. Besides the fact that stock prices were probably inflated and unsustainable, the government should not be in the business of providing a safety net to stockholders.

There are many reasons that economic and budget policy should not focus on the stock market. First, we do not have a basis for establishing what the correct level of stock prices should be—the target. Second, we do not understand well what moves the stock market. Third, the government does not have effective tools to affect the stock market. Fourth, there is no clear connection between a rising stock market and the economic well-being of the vast majority, as a rising stock market can be consistent with improving or declining family incomes and real wages. Last, contrary to popular belief, the stock market has not been a source of investment funds—companies have used more cash to buy stock than they have received from selling stock. Consequently, the government should structure and regulate the stock market so as to generate accurate financial information and transparency but leave the value of the stock market to supply and demand forces.

On the other hand, at a time of high and rising unemployment it is quite appropriate and necessary for government economic policy to focus on job generation and putting the economy on a track to achieve 4 percent unemployment. It is easy to establish the size of the existing “job gap”—the difference between the number of job openings and the number of unemployed—using the new JOLTS data provided by the Bureau of Labor Statistics, as shown in Figure B. In December 2000, the earliest data, there were roughly 5.2 million unemployed and 4.0 million job openings—a gap of 1.2 million jobs. By August 2001—before the terrorist attack—the job gap grew to 3.1 million as job openings slipped by 0.2 million and the unemployed grew by 2.0 million. The latest data, for June 2002, show a further 0.6 million decline in job openings and a further 1.2 million growth of unemployed workers, leav-

ing a total job gap of 5.4 million jobs. As of June 2002, there were 2.67 unemployed workers for every job opening.

#### WHAT'S NEEDED—MORE CUSTOMERS

The Administration is correct in one important sense in saying that the economy's fundamentals are good. That is, we are enjoying a relatively fast growth in productivity even during this recession, a continuation of a trend that began in 1996. The long-term productivity growth rate is now estimated to be 2.0 to 2.5 percent, which is 0.5 to 1.0 percent greater than the roughly 1.5 percent trend over the 1973–95. Thus, one problem we do not seem to be having is improving our efficiency.

The problem we face is that businesses do not have enough customers—they need more sales. As sales rise, so will profits and so will the number of workers hired. Investment in plant and equipment will follow. In economic terms, we have excess supply—plenty of available workers and productive capacity (industry is now working at 76.1 percent capacity, down from 81.8 percent in 2000)—but insufficient Demand. Therefore, to achieve a stronger cyclical recovery we need mechanisms to quickly increase expenditures by government consumers (both foreign and domestic). That is, we need a short-term (over the next 2 years) boost to Demand.

Over the period from 1996 to mid-2000, demand was growing at a 3.5 to 4.5 percent pace but fell to a 1.5 percent pace over the last five quarters because consumption growth slowed, investment fell and net exports declined. In order to lower unemployment by 1.5 percent over the next 2 years—a modest goal that gets us close to the 4 percent unemployment rate target—we will need to increase overall growth 1.5 percent each year for the next 2 years—3 percent more growth overall.

There are two means to do this. One would be to gradually lower the value of the dollar through a policy coordinated with other advanced countries and using lower interest rates. This would lead to greater exports and fewer imports, thereby boosting the manufacturing sector. This is an important policy but not one that directly involves congressional legislation.

The other mechanism to boost demand is to increase government expenditures without raising taxes or having offsetting cuts in other programs. This will require extra spending of \$100 billion in each of the next 2 years. To be clear, this extra spending must be associated with an increase in the fiscal deficit over the next 2 years in order for these new expenditures to add to demand. However, the increase in expenditures and the accompanying deficits need not, and should not, create long-term fiscal imbalances. Thus, the characteristic of a short-term spending stimulus is that the expenditures decline and then disappear as unemployment falls. It is possible to implement an ongoing spending plan if it is paid for by bringing in more revenues after the first 2 years. Preventing the future execution of the planned tax cuts and retaining the estate tax can help offset the costs of higher spending implemented now, allowing policymakers to achieve long-term fiscal solvency.

It is also possible to increase short-term demand through consumer oriented tax cuts. The tax cuts being discussed by the Administration, however, are permanent and therefore raise deficits in both the short-term and the long-term. They are also not consumer-oriented. In fact, many of the tax cuts are oriented toward increasing saving, which would decrease rather than increase demand. The proposed tax cuts are thus wrongly timed (permanent rather than short term) and incorrectly targeted (at improving saving rather than consumer spending).

Another shortcoming of tax cuts over spending is that there is leakage to savings and imports which do not increase domestic demand. That is, part of tax cuts received by households will be saved rather than spent and any consumer spending generated by tax cuts is more likely to go to imports than will government spending on infrastructure, school repair or government services.

#### UNEMPLOYMENT INSURANCE: SOFTENING THE BLOWS, STIMULATING DEMAND

Unemployment insurance plays two critical roles in the US economy. It forms the first line of defense against income lost during periods of unemployment and it provides an automatic stimulus to the economy during periods of economic decline by sustaining consumption and therefore demand. By extending benefits for the long-term unemployed and improving eligibility to incorporate more workers into the system, policymakers can both cushion the impact of a recession on individuals and provide a countercyclical stimulus that will moderate the recession. Thus, a package of unemployment reforms should be part of any stimulus plan.

#### SOFTENING THE BLOW OF UNEMPLOYMENT

The current unemployment insurance system is an important but weak safety net. From the worker's perspective there are few if any protections from lay off. While

some may be eligible for generous severance packages, most workers rely on income from unemployment insurance once they lose a job. The unemployment insurance program has weaknesses, but overall it has worked remarkably well since its creation in 1935. Research indicates that in the absence of unemployment insurance benefits many families would quickly descend into poverty. For moderate income households unemployment insurance benefits lifted 20 percent of these households out of poverty (Danziger and Gottschalk, 1990). Nearly one-third of workers are unable to replace even ten percent of their lost income from savings, while those who receive unemployment insurance benefits draw down their savings and assets more slowly (Gruber, 2002).

While unemployment insurance benefits are a much needed palliative measure for those unfortunate enough to lose a job, they do not provide enough income for families to make ends meet. On average a single working parent with two children falls \$1,317 short each month of the amount of money needed to maintain a minimal, no-frills living standard. A two parent household with one parent unemployed and the other employed part-time at the median wage falls short of their family budget by \$334 per month (Boushey & Wenger, 2001). While unemployment insurance is very helpful it is not overly generous.

Currently, only 48 percent of workers who become unemployed will receive unemployment insurance. Those who receive UI can expect to remain unemployed for 14.7 weeks and receive \$254 per week in benefits.

#### UNEMPLOYMENT INSURANCE AS STIMULUS

The second benefit that comes from unemployment insurance is its effect on the macro-economy. Unemployment insurance acts as an automatic stabilizer—injecting money into the economy as the labor market wanes and unemployment increases. During periods of low unemployment and economic expansion unemployment insurance benefits naturally decline and trust fund balances are increased. Thus, the program injects spending into the economy when the economy is weak and takes out spending when the economy is strong. Improvement in the system will not create long-term fiscal imbalances.

The stabilizing role of unemployment insurance is considerable; research by Chimerine et al. (1999:6) indicates that the unemployment insurance program “mitigated the loss in real GDP by about 15 percent over all the quarters in each recession.” Moreover, and importantly, the authors indicate that the effect of unemployment insurance in the 1990 recession was more robust than in the 1980’s recession. This was likely due in large part to the extended benefits program that was passed by the 102nd Congress in 1992.

Other research has concluded that unemployment insurance plays an important role in stabilizing the economy. Von Furtenburg (1976), Dunson et al. (1990), Uri, et al. (1989), and Vroman (1998) all find that increases in unemployment are met with commensurate increases in UI expenditures and that these expenditures result in significant economic stimulus during periods of economic decline.

The importance of the unemployment insurance system on macro-economic performance has been well documented. However, with the exception of the 1990–1991 recession, the policy and demographic changes have reduced the availability and generosity of unemployment insurance benefits—weakening its effect as a stabilizer. In particular, reciprocity rates have declined from the late 1970’s. During 1975, the year of peak unemployment in the 1970s, the reciprocity rate averaged 75 percent. During 1992, at the end of the last recession, when unemployment peaked, the UI reciprocity rate was 52 percent. Currently the percent age of unemployed workers receiving UI benefits is 48 percent.

Low levels of unemployment insurance eligibility are problematic for particular groups of workers. First and foremost, the lowest earners have a difficult time qualifying for UI benefits. These workers often earn low wages and have periodic interruptions in employment. As a consequence, many of them fail to earn sufficient income or work enough hours to qualify for unemployment insurance benefits. This means that many new entrants to the labor force, in particular women who previously received welfare, will be unable to qualify for unemployment insurance benefits.

The second group of workers who have limited access to unemployment insurance are workers employed on a part-time basis. These workers, most of whom are women, make up 20 percent of the U.S. labor force as of July 2002. The earnings from these jobs comprise nearly 30 percent of household income—a significant loss of income should a part-time worker lose a job. Yet most part-time workers are ineligible to receive unemployment insurance benefits. Research indicates that only 17

States have rules allowing part-time workers to qualify for unemployment insurance benefits. (Wenger, McHugh & Segal, 2002)

Apart from the problem of access are ongoing problems of recipients who exhaust benefits prior to finding a job. During first quarter of 2002, 36.9 percent of UI benefit recipients ran out of regular benefits, making them eligible for Federal extended benefits (Tier 1 TEUC—Temporary Extended Unemployment Compensation). TEUC allowed many workers to receive as many as 13 weeks of additional benefits. It is estimated that 60 percent of those on extended benefits will exhaust their benefits before finding work. Currently, over one million people have exhausted all of their UI benefits.

The UI system of the United States needs to be significantly expanded so that it better serves all of the unemployed. Not only would this serve the interests of the families who have experienced job loss, but it would serve as a well-targeted and highly effective economic stimulus.

#### OFFSETTING THE STATE FISCAL CRISIS

There has been a larger shortfall in State budgets in this recession than in earlier recessions, according to the National Governors Association. States are drawing down their reserves and cutting spending and raising taxes in order to balance their budgets. Unfortunately, when States raise taxes and reduce services they reduce the overall demand for goods and services, thereby exacerbating the recession. The layoffs and spending reductions also curtail many needed services. A very useful way to restore demand in the economy would be to provide fiscal relief to State (and local) governments. This is administratively easy to do—it would take a staff of twenty-five to distribute \$50 billion of fiscal relief to the States. This would also have an immediate impact, as plans to cut programs, raise taxes, or execute layoffs would be suspended.

#### SCHOOL RENOVATION

There is wide agreement that there's a need to improve and expand school infrastructure. The GAO estimated the need for school repairs at \$112 billion dollars in 1995. The problem has only gotten worse. There are existing programs that can be used to quickly expand school repair activity. One mechanism is to expand the repair fund program of the Individuals with Disabilities Education Act (IDEA). Given that many school districts are currently curtailing planned repairs, any new funding for this purpose can be implemented quickly. Another mechanism is to expand Federal funding of the Qualified Zone Academy Bond (QZAB) program, which provides tax credits toward the interest on school construction bonds. We could expand school repair by \$10 to \$20 billion annually through these programs and not only increase spending and accelerate the recovery but also address a much needed investment shortfall in our schools.

#### CONCLUSION

The jobs and unemployment situation will only worsen as slow growth leads to higher unemployment, driving us further from achieving a much-needed goal of 4 percent unemployment. The cost of the higher unemployment is lost wages and incomes to workers and their families, a further widening of inequalities, an inhospitable environment for welfare reform and the social costs of greater crime and worsened health. It is critical that policymakers address the unemployment problem by seeking a measured decline in the value of the dollar and through various temporary spending measures of about \$100 billion each year for the next 2 years.

Figure A: Long term unemployment as a percent of all unemployment, by month after NBER business cycle peak, seasonally adjusted

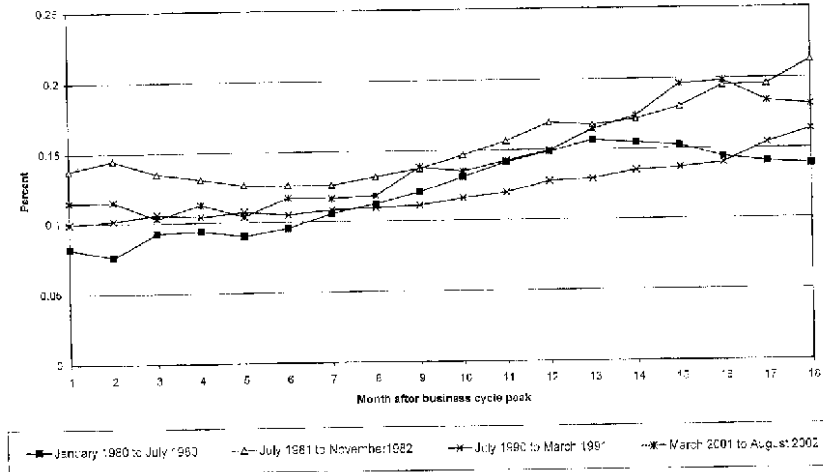
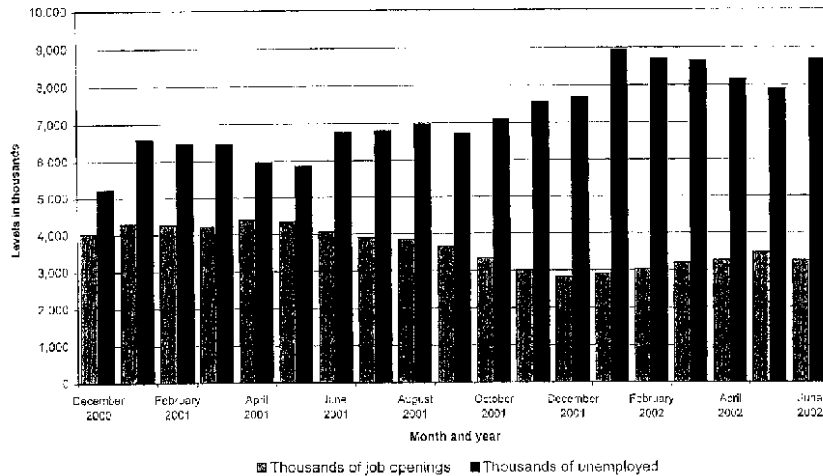


Figure B: Job opening levels and unemployment levels. December 2000 to May 2002, not seasonally adjusted



The CHAIRMAN. We now welcome Dr. Primus, who is director of the Income Security Division of the Center on Budget and Policy Priorities. Dr. Primus has expanded the Center's research in areas including Social Security, unemployment insurance, child support enforcement, child welfare, income and poverty trends, and Federal policy related the 1996 welfare law.

He served as chief economist and staff director of the House Ways and Means Committee during the recession in the early 1990's when the committee played a significant role in extending temporary unemployment benefits.

We are glad to have you here, Dr. Primus.

Mr. PRIMUS. Mr. Chairman, I very much appreciate the opportunity to testify on what Congress should do for unemployed Americans in the context of the current economic situation. I will summarize my testimony with three simple points.

First, do not be misled by unemployment rates of less than 6 percent in this recession. For workers, this recession is as severe, or probably more severe, than the 1990 recession.

The most accurate way to evaluate a recession's impact on unemployment is to examine the increase in unemployment during the recession, measuring it just before the recession and then where we are currently. It is that increase in unemployment that measures the degree to which the economic situation of workers has worsened as a consequence of a downturn.

Official unemployment as released each month by the Bureau of Labor Statistics in this recession has increased from 3.9 percent to 5.7 percent, as Larry indicated. In the last recession, unemployment increased from 5.5 percent or so to a little over 7.5 percent, an increase of two percentage points. That increase is comparable but somewhat less thus far in this recession.

But if you look at workers and unemployment insurance statistics, a different picture emerges. You can think of the insured unemployment rate, the percentage of workers collecting unemployment, as kind of an unemployment rate among workers. For the 3-month period centered in July of 1990 to July of 1992, that rate rose by seven-tenths of one percent, from 2.4 to 3.1 percent.

However, during the last 2 years for which data are available, the increase today is greater. It went from 1.7 to 2.8, a 1.1 percentage point increase. The larger increase in this rate indicates that for experienced workers, the impact of this recession is somewhat more severe than the impact of the previous recession.

Although the insured unemployment rate is a better measure of unemployment among experienced workers than the official rate, it also has several defects. This insured unemployment rate does not take into account part-time workers, as you noted in your opening statement, but it also does not take into account anyone who has exhausted his regular unemployment benefits, which typically last 26 weeks.

So unemployed workers today who are receiving Federal temporary benefits are not counted by this measure. To partially remedy that defect, we use something called an "adjusted insured unemployment," the same rate that is used in your bill, Mr. Chairman. It counts all the workers who are receiving unemployment insurance plus those who have exhausted benefits in the last 3 months. This was also the definition of unemployment that we used in the last recession. That adjusted unemployment rate has increased more sharply in the past 2 years than it did during a comparable period in the early 1990's.

As you can see by the graph that I hope is in front of you, this increase of 1.5 percentage points is bigger than the increase that happened during the 1990 recession.

Mr. Chairman, take your State, for example. During the last recession, when unemployment was increasing from 5.5 to about 7.8 percent, this adjusted rate in Massachusetts only rose two-tenths of one percent. In this recession, the increase has been 2.1 percent-



age points, almost 10 times more. So clearly workers in your State have been affected considerably more.

If you look at five States—Massachusetts, Michigan, North Carolina, Oregon, and Washington have had increases of two percentage points or more. In the last recession, there was only one State that had an increase over 2 percent.

The CHAIRMAN. Excuse me. Just so I understand, basically what you are saying is that we have more workers looking for fewer jobs; is that correct?

Mr. PRIMUS. Absolutely.

The CHAIRMAN. The difference in the impact on the workers between the recession in the 1990's and currently is that you have fewer jobs available and more workers looking for them, and therefore, there is increasing pressure put on the work force, and therefore, we have to provide additional help and assistance to them if we are going to treat them fairly.

Mr. PRIMUS. That is right. I guess what I am really arguing is that in regard to the unemployment rate for workers, those in the work force as opposed to new entrants or re-entrants, this recession has hit them more than the last recession.

The CHAIRMAN. OK.

Mr. PRIMUS. Another way of thinking about this, Mr. Chairman, is just looking at long-term unemployment, those who have exhausted their regular benefits. The increase in this recession is greater than in the 1990's recession. For example, where these workers are from in New York, in the last recession, exhaustions over a 6-month period increased by 81,000; in this recession, they increased by 104,000.

So the bottom line is that this recession is as severe or probably more severe for workers who have been in the labor force.

Point number two—the temporary Federal program enacted in March provides much fewer weeks of benefits and is scheduled to expire at the end of this year, only 9½ months after it began. During the prior recession, the program lasted for 30 months. As you pointed out, only two States now are getting more than 13 weeks. In the last recession, in the early part of the recession, the minimum number of weeks a State could receive was 26, and there are many fewer States today counted as high-unemployment States.

All of those things suggest that the current Federal program is a lot less generous than the prior program.

Point number three—exhaustion data from this temporary program you enacted in March confirms that this recession is serious and that the current temporary program is inadequate. Already, 900,000 workers have exhausted benefits. By the end of September, 1.5 million will have exhausted, and by the end of the year, 2.2 million will have exhausted. During a comparable period in the early 1990's, we only had 1.4 million workers who exhausted those temporary benefits.

In conclusion, Mr. Chairman, there is a price to inaction. If you do not act and provide additional weeks, you will be saying to the one million or so who have already exhausted those temporary benefits that they will not get benefits like their counterparts in the previous recession. And in the last recession, it was a bipartisan

process. President George H. Bush signed all of those extensions into law.

Furthermore, if you do not act before adjourning sine die, there will be one million workers who are going to be receiving benefits around Christmas-time and around the beginning of the new year; so if you exhausted your benefits in early December and maybe were scheduled to get 13, come January 1, that is all you are going to get. So there will be roughly one million workers that you will be giving a somewhat unhappy New Year, and there will be no benefits for the roughly 400,000 workers who will exhaust their regular benefits in January and February of 2003.

The final point, Mr. Chairman, is that there is over \$25 billion sitting in a Federal unemployment insurance trust fund that was collected from workers so that they can receive extra benefits during a period of recession.

The CHAIRMAN. That is very, very helpful. What was the height of that unemployment insurance fund? Before we passed the 13 weeks, do you remember what that was up to?

Mr. PRIMUS. It was around \$45 billion or so. So it has been depleted somewhat, mainly because you transferred about \$9 billion to the States, and you paid for these benefits thus far out of that fund.

The CHAIRMAN. Thank you very much.

[The prepared statement of Mr. Primus follows:]

#### PREPARED STATEMENT OF WENDELL PRIMUS

Mr. Chairman and Members of the Health, Education, Labor & Pensions Committee: My name is Wendell Primus, and I am the Director of Income Security at the Center on Budget and Policy Priorities. The Center is a nonpartisan, nonprofit policy organization that conducts research and analysis on a wide range of issues affecting low- and moderate-income families. We are primarily funded by foundations and receive no Federal funding.

I very much appreciate the opportunity to testify on what Congress should do for unemployed Americans in the context of the current economic situation. In summary, your proposal addresses an urgent issue. It would assist unemployed Americans to a significant degree by broadening coverage, providing additional weeks of benefits, and raising the Temporary Emergency Unemployment Compensation (TEUC) benefit amount. In reforming the TEUC program, it is useful to recall that improvements to the Unemployment Insurance system serve a two-fold purpose. First, they assist workers who are unemployed through no fault of their own to meet their daily living expenses, such as rent or mortgage payments, utilities, and groceries. Second, by providing this assistance, nearly all of the money is immediately spent, thus boosting consumer demand and mitigating further layoffs. Most other forms of fiscal stimulus do not serve such pressing needs.

In my testimony, I will describe the current unemployment situation and the Temporary Emergency Unemployment Compensation program. I will explain that workers are by many measures worse off in the current recession than in the recession of the early 1990s, and that the TEUC program is less generous than the Emergency Unemployment Compensation program that was in place during that last recession. I conclude with several suggestions for improving the TEUC program.

#### SUMMARY

A cursory examination of current unemployment statistics would suggest that this recession is mild in comparison to the prior recession and therefore no additional weeks of Federal unemployment benefits need to be provided to unemployed workers beyond what was enacted in March in the economic stimulus legislation. Such an analysis might conclude that the current unemployment rate—5.7 percent as of August 2002—indicates the recession is quite mild and is harming only a modest number of workers.

This assessment is mistaken. Although by some commonly used measures the consequences of the recent downturn have not been as severe as the consequences of

the recession of the early 1990s, by certain other measures the recession that began last year has hit workers just as hard as the recession of the early 1990s. In fact, by some important measures, such as the actual number of workers whose federally-funded unemployment benefits are running out before they are able to find a new job, this recession has hit workers harder than the last recession.

The unemployment situation has not yet significantly improved; in fact, the latest unemployment rate indicates that unemployment is unchanged from its level when the Temporary Emergency Unemployment Compensation (TEUC) program was enacted in March 2002. The Congressional Budget Office predicts that the unemployment rate will remain near 6 percent until the second half of 2003, well after the program's expiration date of January 1, 2003. The evidence of the difficult labor market conditions facing workers in this recession relative to the last recession and historical precedent for a longer and a more generous program combine to present a strong case for extending and expanding the TEUC program.

Unemployment data from the Bureau of Labor Statistics (BLS) indicate that, on average, there were 2.7 million more unemployed workers in the 3 month period from June to August 2002 than in June to August 2 years ago, and 1.9 million more unemployed than in the same months 1 year ago.

An increase in the long-term unemployment of workers with significant labor force experience who cannot find a job before their benefits are exhausted is a particularly striking measure of the depth of the current recession. Nationally, the number of unemployed workers exhausting their regular State benefits has doubled from the level 2 years ago.

The most accurate way to evaluate a recession's impact on unemployment is to examine the increase in unemployment during the recession, rather than the overall unemployment rate. In other words, it is the increase in unemployment that measures the degree to which the economic situation of workers has worsened as a consequence of a downturn.

The Adjusted Insured Unemployment Rate (AIUR), which measures both short and long-term unemployment of experienced workers, has increased by 1.5 percentage points between the three-month periods from June to August 2000 and June to August 2002.<sup>1</sup> In the last recession, the AIUR rose by 1.1 percentage points between June to August 1990 and June to August 1992. (For further explanation of the different definitions of unemployment used here, please see the Appendix.)

During the last 6 months, the number of workers who have run out of State UI benefits is 2.3 million, compared to 2.0 million 10 years ago. Thirty-two States plus the District of Columbia had larger increases in exhaustions during this recession than the last recession, and 16 States had more exhaustions over a 6 month period in the current recession than in the last. Nationally, during comparable time periods, exhaustions increased by 875,000 in the last recession; in this recession they increased by a larger amount—1,185,000.

During a comparable time period, more workers will exhaust their Federal UI benefits in this recession than exhausted Federal UI benefits in the last recession.<sup>2</sup> Approximately 2.2 million workers will exhaust their TEUC benefits by the end of December 2002. This substantially exceeds the 1.4 million workers who exhausted their temporary Federal benefits in the 1990s recession. This finding confirms the theory that the current TEUC program is inadequate.

Additionally, some characteristics of the TEUC program reduce its effectiveness as both a means of assistance to unemployed workers and as an economic stimulus. Extending the expiration date and increasing the number of weeks of benefits available are changes dictated by economic conditions and historical precedent. At the same time, changing other program requirements can strengthen the TEUC program's impact. Changes to the TEUC program should include:

- Extending the expiration date of the program beyond January 1, 2003.

- Increasing the number of weeks of benefits under the program.

- Modifying the definition of "high unemployment" for the purposes of the program so that more than two States qualify for the highest tier of benefits.

- Removing the explicit requirement that workers have at least 20 weeks of wages in their base period to receive TEUC benefits, so long as workers meet the earnings requirements for regular UI benefits in their States.

#### CHANGES IN UNEMPLOYMENT

By most measures of unemployment, the increase in unemployment during this recession is somewhat similar to or exceeds the increase during the recession of the early 1990s.

The official seasonally adjusted unemployment data from the U.S. Department of Labor's Bureau of Labor Statistics (BLS) include anyone who is classified as unem-

ployed, regardless of the reason for their unemployment. This data is used to compute the Total Unemployment Rate (TUR). The official unemployment data show substantial increases in both the number of unemployed and the unemployment rate since the recession began in March 2001; these increases are similar to, but somewhat less than, those that occurred in the early 1990s recession.

BLS data indicate that there were 2.3 million more unemployed workers in August 2002 than there were in February 2001, the month before the recession began. During the recession of the early 1990s, 18 months into the recession, the number of unemployed had increased by 2.6 million, a somewhat larger figure.

Comparing the average unemployment over two three-month periods can provide a better picture of changes in unemployment than comparing two single months, since three-month averages incorporate more information and smooth out one-month aberrations. (BLS unemployment data are prone to these aberrations because they are based on a sample.) Comparing the 3 months prior to the start of the current recession in March 2001 to the latest 3 months for which information is available shows that unemployment grew by an average of 2.5 million workers. During this period, the average three-month unemployment rate grew from 4.1 percent to 5.8 percent, an increase of 1.7 percentage points.

Some 18 months into the recession of the early 1990s, the average number of unemployed over a three-month period had grown by 2.3 million workers compared to the 3 months just prior to the recession. During this period the average three-month TUR grew from 5.3 percent to 7.1 percent, an increase of 1.8 percentage points. Thus, comparing the figures from the two downturns, the actual increases in the number of unemployed persons and increases in the unemployment rate are similar.

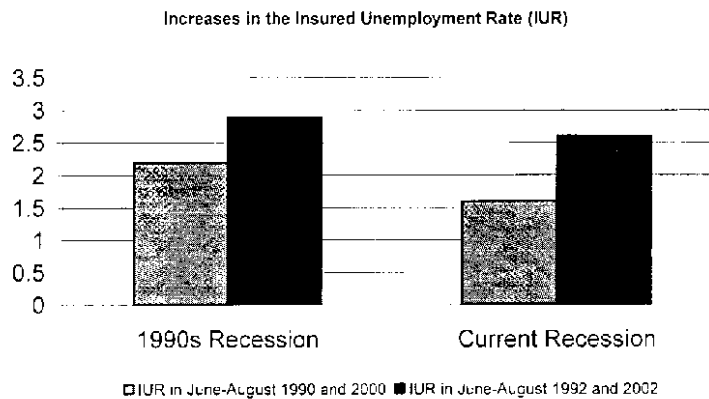
However, it took about 24 months in the 1990 recession for unemployment to peak. Over this period, the three-month average unemployment rate increased 2.2 percentage points.

A second set of indicators comes from the information compiled for the Unemployment Insurance program. The measure of unemployment used here is the insured unemployment rate (IUR), which measures the number of workers that are receiving regular, State-funded Unemployment Insurance (UI) benefits. One advantage of this measure is that since in most States an unemployed worker must have a minimum level of earnings and weeks of work history to qualify for UI benefits, to some degree the IUR measures unemployment among experienced workers with a significant labor force attachment.

The proportion of workers receiving State unemployment benefits has actually risen more during this recession than the last recession.

Because most unemployment insurance data is not seasonally adjusted and because averaging 3 months of data is technically better, the remainder of this analysis uses three-month averages, centered 2 years apart.<sup>3</sup>

For the three-month period centered on July 1990 to July 1992,<sup>4</sup> the IUR increased from 2.4 percent to 3.1 percent, an increase of 0.7 percentage points. However, during the last 2 years for which data are available, the three-month average IUR increased from 1.7 percent to 2.8 percent, a 1.1 percentage point increase. The larger increase in this rate indicates that, for experienced workers, the impact of this recession is somewhat more severe than the impact of the previous recession. See the graph below.



Although the IUR is a better measure of unemployment among experienced workers than the official unemployment rate, it itself has several defects.<sup>5</sup> Of special note here, the IUR does not take into account experienced workers who have been unemployed for such a long period of time that they have exhausted their regular unemployment benefits, which typically end after 26 weeks or less. So unemployed workers who are receiving temporary Federal benefits or who have exhausted their regular or Federal benefits—that is, workers who presumably have had the most trouble finding a job and whose economic situation is especially perilous—are not counted by this measure.

It is also worth examining a third measure of unemployment, the Adjusted Insured Unemployment Rate (AIUR), which measures both short- and long-term unemployment of experienced workers.

The AIUR has increased more sharply in the past 2 years than it did during a comparable two-year period covering the early 1990s recession.

The AIUR increased by 1.5 percentage points between June to August 2000 and June to August 2002.<sup>6</sup> During a comparable two-year period of the last recession, the AIUR rose by 1.1 percentage points.

As shown in Table 1, the AIUR has increased more in 36 States in this recession compared to the last recession.

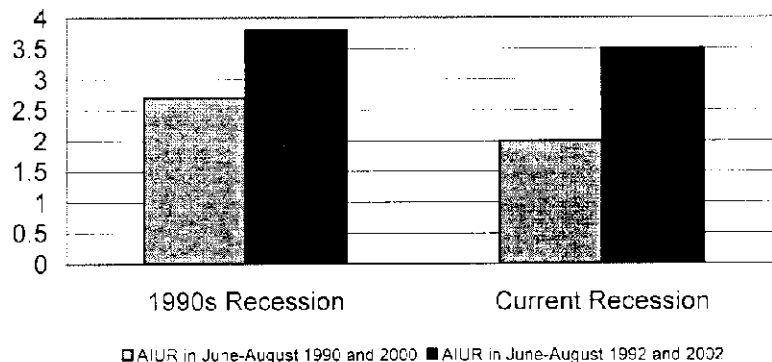
Currently, there are 11 States with three-month average AIURs above 4 percent, compared to one State 2 years ago. In the last recession, there were 18 States with June to August average AIURs above 4 percent, up from three States over June to August 1990.

In this recession, AIURs have increased by two percentage points or more in five States: Massachusetts, Michigan, North Carolina, Oregon, and Washington.

AIURs increased by one percentage point or more in an additional 31 States, so a total of 36 States had increases of one percentage point or more. During the prior recession, only one State had an AIUR increase of over two percentage points, and only 23 States had increases of one percentage point or greater.

In summary, the “official” unemployment data show similar but sometimes somewhat smaller increases in unemployment in this recession compared to the last one. However, unemployment rate data from the unemployment insurance system show greater increases in this recession as compared to the prior recession.

Increases in the Adjusted Insured Unemployment Rate (AIUR)



#### WORKERS EXHAUSTING UNEMPLOYMENT INSURANCE BENEFITS

The importance of the recent unemployment increase is magnified by the recent increase in the number of workers that are exhausting their weeks of unemployment insurance benefits without finding a job. These workers have significant work experience but are unable to find a job before their benefits expire. The exhaustee data, in some cases, indicate that current labor market problems are now worse than they were in the early 1990s.

The increase in the number of workers whose regular State UI benefits ran out before they were able to find a job was greater during this recession than during

the early 1990s recession. The increase in exhaustions between the February–July 2000 period as a whole and the February–July 2002 period as a whole was 1,185,000 workers. This exceeds the increase of 875,000 in the number of exhaustions between February–July 1990 and February–July 1992. (Comparing total exhaustions over two six-month periods is preferable to comparing exhaustions during two individual months, such as July 2000 and July 2002, because it accommodates seasonal fluctuations in unemployment. July 2002 is the most recent month for which exhaustion data are available.)

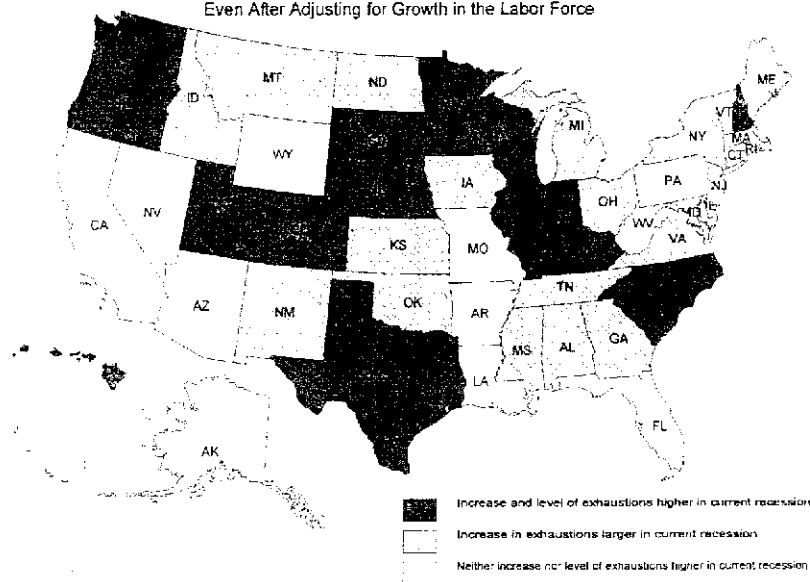
The total number of exhaustions is also greater in this recession than the last: 2.3 million workers have exhausted their regular State UI benefits over the past 6 months, compared to 2.0 million for a six-month period at a comparable point in the last recession.<sup>7</sup> Nationally, the number of exhaustions has doubled in the past 2 years.

These data in the aggregate and for each State are shown in Table 2. For example, in Alabama 24,811 workers have exhausted regular State UI benefits over the past 6 months for which data are available. This is 11,289 workers more than a comparable period 2 years earlier. The fourth column in the table illustrates the increase in exhaustions from a comparable period in the prior recession. The States where the increase in exhaustions in this recession was at least double the increase in the prior recession are Colorado, Indiana, Kentucky, Massachusetts, Michigan, Minnesota, Nebraska, New Hampshire, North Carolina, North Dakota, South Dakota, Texas, Utah, and Wisconsin.

To be sure, the size of the labor force has also grown since the early 1990s, so the increased number of exhaustees partly reflects the increased number of workers. But even after adjusting for changes in the size of the labor force, the increase in the total number of workers exhausting regular State benefits is greater in this recession than in the previous recession.

The state-by-state data, naturally, depict a similar pattern. Thirty-two States plus the District of Columbia have had larger increases in the number of unemployed workers exhausting their regular benefits, adjusted for the size of the covered labor force, during this recession than during the last recession.<sup>8</sup> In 16 of these States, after adjusting for the size of the covered labor force, both the increase and the level of exhaustions are larger in the current recession than in the previous recession.

Thirty-three States Had Greater Increases of UI Exhaustions in this Recession Compared to the Previous Recession, Even After Adjusting for Growth in the Labor Force



THE AUGUST UNEMPLOYMENT DATA

The recent decline in the Total Unemployment Rate in August, from 5.9 percent to 5.7 percent, received substantial attention as a positive sign for the labor market

and the economy. While any signs of improvement in the labor market constitute good news, one should be hesitant about making too much of the August data, particularly in the context of assessing whether the Unemployment Insurance program needs strengthening.

A one-month change of 0.2 percentage points does not a trend make. Several more months of similar data, or a more substantial drop in the rate, are needed before it would become clear that the labor market is improving. As BLS itself noted, the unemployment rate for August was “little changed.”<sup>9</sup>

The August unemployment rate of 5.7 percent is the same as the unemployment rate in March, when Congress created the TEUC program to address the rise in unemployment during the recession.

The August labor market data included a much less encouraging figure that did not make the headlines. “Non-farm payroll employment”—generally considered to be the best measure of the number of jobs in the economy—increased by just 39,000, to 130.8 million. This is a barely perceptible increase in the number of jobs and is more indicative of a stagnant labor market than a growing labor market.

The proportion of the labor force consisting of people who lose their jobs involuntarily, the population that the unemployment insurance program is primarily designed to serve, did not decline at all in August.

Many economists predict that unemployment will increase in subsequent months. Just a few weeks ago CBO predicted that unemployment will remain near 6 percent until the middle of next year.

#### TEUC IS CONSIDERABLY LESS GENEROUS THAN EUC

The TEUC program was enacted earlier this year as part of an economic stimulus package. It provides up to 26 weeks of additional UI benefits to workers who have exhausted their regular State UI benefits and who live in “high unemployment states” (as defined by the program) and up to 13 weeks of additional benefits to workers in other States. To qualify for the additional weeks of benefits, workers must have met all the requirements to collect regular UI in their State, have exhausted those regular UI benefits, and still be unemployed. Also, workers must have at least 20 weeks of earnings in their base periods. Workers in high unemployment States that have 13-week average IURs of at least 4 percent can collect TEUC benefits for as many weeks as they received regular State UI benefits, up to 26 weeks, and workers in other States may receive TEUC for half as many weeks as they received regular UI, up to 13 weeks. While States pay for regular UI benefits, TEUC benefits are federally financed. The TEUC program is set to expire on January 1, 2003; no benefits will be paid after that date even to workers who had not received the full number of weeks of TEUC benefits for which they were eligible before the cut-off date.

The Emergency Unemployment Compensation (EUC) program was established to provide additional benefits to workers during the recession of the early 1990s. That program, which was enacted in November 1991 and expired on May 1, 1994—lasting for a total of 30 months—initially provided up to 33 weeks of benefits to workers in high unemployment States (using a different definition than employed in the current TEUC program) and 26 weeks of benefits to workers in other States.<sup>10</sup> In July 1992, it was revised to provide up to 26 weeks of benefits to workers in high unemployment States and 20 weeks to workers in other States. To qualify as high unemployment States to provide extra weeks of benefits, States had to have AIURs of at least 5 percent or six-month average Total Unemployment Rates of 9 percent.

#### EXPIRATION DATE

The TEUC program is currently set to expire on January 1, 2003, only 9.5 months after the program began. According to the Congressional Budget Office, the unemployment rate will still be close to 6 percent at that time—higher than it was in March 2002, when the TEUC program was enacted, or in March 2001, when the recession began. Currently, the official unemployment rate remains 1.4 percentage points above its level in March 2001.

By the time the EUC program ended, the national TUR had returned to within 0.6 percentage points of its level at the beginning of that recession, after climbing 2.3 percentage points above its beginning level at the peak of the recession. The EUC program remained in place even economic growth resumed, because unemployment rates tend to lag behind the economic recovery and do not return to their pre-recessionary levels immediately. By the same logic, it is necessary to extend the expiration date of the TEUC program so that it does not end while unemployment remains high.

## NUMBER OF WEEKS OF BENEFITS

Under the TEUC program, workers in high unemployment States may receive up to 26 weeks of additional Federal benefits; workers in other States get up to 13 weeks of benefits. Currently, only two States qualify to provide 26 weeks of benefits, so the vast majority of TEUC recipients qualify for a maximum of 13 weeks. Up to 12 States qualified to provide 26 weeks of benefits at some point thus far in the TEUC program, but 10 States have dropped out of the "high unemployment" category.

For the first 7 months of the EUC program, workers in high unemployment States could receive 33 weeks of temporary Federal benefits, and workers in other States could receive 26 weeks. After June 1992, workers in high unemployment States received 26 weeks of benefits and workers in other States got 20 weeks of benefits. Not until March 1993, a full 16 months after the program began, were any recipients limited to fewer than 20 weeks of EUC benefits.

Also, more States qualified for the high unemployment tier of longer benefits periods in the previous recession than in the current recession:

Early in the EUC program during the last recession, 15 States qualified to provide up to 33 weeks of benefits, with other States providing up to 26 weeks of benefits. Soon after the TEUC program was implemented in this recession, 12 States qualified to provide up to 26 weeks of benefits, and other States provided up to 13 weeks of benefits.

Seven months into the EUC program, when the number of weeks of benefits available was reduced, 15 States still qualified to provide 26 weeks of benefits, and 20 weeks of benefits were available in the other States. In contrast, 6 months after the start of the TEUC program, only two States still qualify to provide 26 weeks of benefits, and only 13 weeks are available in other States.

Almost 2 years after the EUC program began, the number of weeks available was again reduced. Seven States qualified to provide 15 weeks of additional benefits, and the remainder provided 10 weeks. The TEUC program is scheduled to expire after only nine-and-a-half months; no additional benefits will be available at the two-year mark.

<b>Maximum Number of Weeks of Additional Federal Benefits Available in the Prior and Current Recessions</b>				
	<b>EUC Benefits, 1991-94</b>		<b>TEUC Benefits, 2002</b>	
<b>Early*</b>				
Weeks of Benefits	<b>26 Weeks</b>	<b>33 Weeks</b>	<b>13 Weeks</b>	<b>26 Weeks</b>
Number of States	35	16	39	12
<b>Middle</b>				
Weeks of Benefits	<b>20 Weeks</b>	<b>26 Weeks</b>	<b>13 Weeks</b>	<b>20 Weeks</b>
Number of States	36	15	49	2
<b>Late</b>				
Weeks of Benefits	<b>10 Weeks</b>	<b>15 Weeks</b>	<b>0 Weeks</b>	<b>0 Weeks</b>
Number of States	44	7	0	0

\*Early refers to November 1991 and May 2002, middle refers to June 1992 and September 2002; late refers to March 1993. When first enacted in 1991, the EUC program provided 13 and 20 weeks of benefits, but before those benefits were exhausted, an additional 13 weeks were added. Number of states includes DC.

## DEFINITION OF HIGH UNEMPLOYMENT

As discussed above, only two States currently qualify to provide 26 weeks of additional TEUC benefits, and in the other States, only 13 weeks of additional benefits are available. While 12 States qualified to provide up to 26 weeks of benefits at some point during the program, ten have fallen out of the "high unemployment" category in large part because the trigger that provides extra weeks of benefits in high unemployment States is flawed. It is based on a measure that does not include long-term unemployment, and is not seasonally adjusted.

For the purposes of the TEUC program, classification as a high unemployment State is based on the Insured Unemployment Rate, which does not include long-term unemployment. Workers who exhaust their regular State UI benefits and need additional assistance are not counted in the triggering mechanism for that very as-



sistance—a worker who is receiving UI benefits in his 26th week of unemployment is included in the IUR, but when that worker exhausts regular UI and begins to receive TEUC benefits, he is dropped from the IUR calculation! The IUR counts a worker who exhausts his regular State UI benefits in the same way as a worker who has returned to his job—by dropping him from the numerator of the calculation. Thus, the IUR can decline in States where the unemployment situation is actually worsening because durations of unemployment are increasing.

Also, the IUR is not seasonally adjusted, but unemployment is a seasonal phenomena. Rates are expected to decline in the summer months, and those seasonal declines have compounded the problems with the trigger levels. Of the 10 States that were classified as high unemployment States at some point during the program but no longer meet the definition, only three have had decreases of more than two-tenths of a percentage point in their seasonally adjusted Total Unemployment Rates.<sup>11</sup> Two of the ten States have seen their overall unemployment rates increase by a half a percentage point or more since March, yet because their not seasonally adjusted IURs have decreased, they no longer qualify to provide the full 26 weeks of additional benefits.<sup>12</sup>

The AIUR, which does include long-term unemployment, was used to define high unemployment under the EUC program. States qualified to provide up to 33 weeks of additional benefits during the first 7 months of the program and 26 weeks thereafter with AIURs of at least 5 percent. As a result of a more appropriate trigger level, 16 States qualified to provide at 33 weeks of benefits early in the EUC program, and after the number of weeks available was reduced, 15 States remained eligible to provide 26 weeks of benefits.

#### TWENTY-WEEK REQUIREMENT

Other characteristics of the TEUC program limit the extent to which it satisfies its goals of providing economic stimulus and assistance to unemployed workers. Some workers who exhausted their regular State UI benefits did not receive TEUC benefits at all, because in addition to having qualified for and exhausted regular State UI benefits, workers must have had at least 20 weeks of earnings in their base period to be eligible for TEUC benefits, a condition that did not apply to EUC eligibility in the early 1990s. Eligibility rules for regular State UI benefits in 23 States do not explicitly require 20 weeks of work, and workers who may have had less than 20 weeks of work but met the monetary and nonmonetary eligibility requirements in those States were nonetheless ineligible for TEUC benefits if they exhausted their regular UI benefits. While 23 States could potentially pay regular UI benefits to workers who have fewer than 20 weeks of wages, it is expected that there are significant numbers of such workers receiving regular State UI benefits in only ten States. It is estimated that requiring 20 weeks of work will result in almost 130,000 workers who would otherwise have received TEUC benefits during 2002 not receiving such benefits.

#### PERMANENTLY CHANGE THE TRIGGER

As in the early 1990s recession, the TEUC program should use an AIUR trigger to determine which States are high unemployment States. The natural rate of unemployment is somewhat lower now than it was in the 1990s, and the trigger level should reflect this change in the underlying economic conditions. (For a discussion of the natural rate of unemployment, see the text box “The Natural Rate of Unemployment Has Changed Over Time.”) States should qualify to provide the longer period of TEUC benefits with an AIUR of at least 4 percent.

A four-percent AIUR trigger should also be adopted for the regular Federal-State Extended Benefits (EB) program. Currently, States qualify for that program if their IURs are at least 5.0 percent and at least twenty percent higher than at the same time in the past 2 years. Also, all but 12 States have adopted an optional trigger that allows them to qualify with IURs of at least 6 percent and no required increase from the past 2 years. Eight States have adopted a third trigger, a three-month average TUR of at least 6.5 percent and at least ten percent higher than the TUR for the same months in either of the past 2 years.

The same logic for changing the TEUC high-unemployment trigger applies to changing the trigger—both the overall unemployment rate and the UI measure of unemployment—for the permanent EB program. The IUR does not include long-term unemployment, and the natural rate of unemployment is lower now than when the trigger level was established. There are two additional reasons for adopting a four-percent AIUR trigger for the permanent EB program:

Having a more appropriate trigger would mean that States could qualify for extra weeks of benefits earlier in the recession than if the trigger is set too high and

workers are forced to rely on temporary emergency programs created by a political process. The political process can be slow, and allowing States to trigger on based on their AIURs might get benefits to workers sooner in a recession—and therefore begin to provide economic stimulus sooner in the recession.

A more appropriate EB trigger would probably also lower Federal expenditures. If States with high unemployment, measured realistically under an improved trigger, qualify for regular EB, then temporary emergency programs might not be necessary or might be necessary for a shorter period of time. Since EB benefits are not paid in all States but rather only those with high unemployment, the cost to the Federal government would potentially be lower.

#### The Natural Rate of Unemployment Has Changed Over Time

Unemployment is a measure of the performance of a market — the labor market — and therefore the unemployment rate will never rest at zero. Buyers of labor services (employers) and sellers of labor services (unemployed individuals) are constantly searching for the optimal match. Buyers and sellers eventually will converge at an equilibrium point, which can be considered the rate of full employment for an economy for a specific period of time.

Historically, economists found a clear negative relationship between inflation and unemployment (lower unemployment led to higher wages, higher prices, and higher inflation), meaning that countries could, in effect, choose an unemployment rate according to the level of inflation that could be tolerated. In the 1960s, however, economists began to question the clear trade-off between inflation and unemployment, especially a country's ability to control either rate, arguing that expectations of workers and firms would eventually adjust to market conditions, off-setting any effort to manipulate either rate. A new theory emerged, which held that an unemployment rate could not be sustained below a certain level called the "natural rate of unemployment." In the early 1990s, economists assumed this rate to be about 6 percent, and legislative UI benefit "triggers" for the states were set accordingly.

During the recent economic expansion, however, unemployment rates fell significantly below 6 percent — all the way to 3.9 percent. This has led economists to reevaluate their ability to predict and measure the natural rate of unemployment and to consider how economic, social, and technological trends have affected unemployment over time. For example, unemployment rates rose in the 1960s and 1970s in part because of the huge increase in the labor force participation of women, as well as the entry of the first baby boomers into the labor market.<sup>1</sup> Other factors, such as the shift in demand from unskilled to skilled workers, advances in technology, the increased use of temporary workers, added market efficiency gained through the use of the internet for job searches and postings, and the recent increase in the labor force participation of single mothers, have also played important roles.

In light of these measurement difficulties, there are multiple reasons to assume that the rate of full employment now is considerably lower than when various UI trigger levels were set. For example, the enormous increase in the nation's prison population has removed many lower-skilled, less-educated males of working age from the labor force, causing a decline in measured unemployment. In addition, some economists have recently argued that the increase in the disability rolls (which rose by 2.2 million between 1990 and 2000) has reduced measured unemployment by 0.5 percent.<sup>2</sup>

The natural rate of unemployment will change over time due to demographics, the strengths and weaknesses of the safety net, and other economic forces, and thus cannot be measured precisely. It is likely, however, to be significantly below the level of six percent often assumed a decade ago.

<sup>1</sup> Paul O. Flaim, "Population Changes, the Baby Boom, and the Unemployment Rate," *Monthly Labor Review*, August 1990, Vol. 113, No. 8.

<sup>2</sup> David H. Autor and Mark G. Duggan, "The Rise in the Disability Rolls and the Decline in Unemployment," *Quarterly Journal of Economics*, February 2003 (forthcoming) and Chihhui Juhn, Kevin M. Murphy, and Robert Topel, *Current Unemployment, Historically Contemplated*, Brookings Panel on Economic Activity, April 2002.

#### OTHER CHANGES

The TEUC program has a dual purpose: to provide additional assistance to unemployed workers whose spells of unemployment are lengthened by recessionary conditions, and to provide targeted economic stimulus. Peter Orszag, a senior fellow in Economic Studies at the Brookings Institution, says that temporary extended UI benefits provide "high 'bang for the buck' in terms of economic stimulus."<sup>13</sup> This is because such benefits are spent quickly. As Nobel Prize winning economist Joseph Stiglitz wrote in the *Washington Post*, "give money to people who have lost their jobs in this recession, and it would be quickly spent."<sup>14</sup> They are also well-targeted: they go to communities where economic need, as measured by unemployment, is

highest. A 1999 Department of Labor study found that in past recessions, each dollar of UI benefits probably increased the GDP by \$2.15.<sup>15</sup>

Both the stimulative effect of the TEUC program and the relief provided to unemployed workers could be increased by paying benefits to two groups of workers who currently do not qualify—those seeking part time work and those who do not have sufficient earnings in the regular base period but would qualify if the alternate base period were used—and by increasing benefit amounts.<sup>16</sup> The proposed changes to allow workers who would have qualified for regular State UI benefits had their most recent wages been included in their base periods or had they not been disqualified for seeking only part-time employment to collect TEUC benefits are a good step. States should also undertake studies of the interaction of their UI programs and their Temporary Aid to Need Families (TANF) programs to make sure that UI policies interact properly with the work-based TANF system. Such studies might prompt States to cover part time workers or to use the alternate base period of their own volitions even if those provisions are not mandated or encouraged by provisions enacted into Federal law.

#### NUMBER OF TEUC EXHAUSTIONS INDICATES THAT PROGRAM MUST BE STRENGTHENED

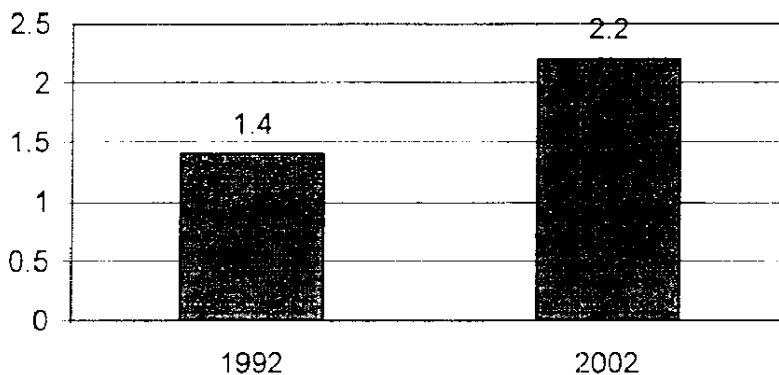
Exhaustion data from the Temporary Extended Unemployment Compensation (TEUC) program confirm that the program should be strengthened. During the first 5 months of the TEUC program, from March to July of 2002, some 2.8 million workers received assistance from the TEUC program. However, according to Labor Department data, around 900,000 of these workers exhausted their benefits by the end of July without finding work. (Some of these workers have found jobs since then, but given the weakness of the labor market, it is very likely that many of these exhaustees still lack jobs.)

In August and September of this year alone, a Center on Budget and Policy Priorities analysis projects another 600,000 workers will exhaust their TEUC benefits, lifting the number of exhaustees to 1.5 million workers.<sup>17</sup> By the end of 2002, a projected 2.2 million workers will exhaust their TEUC benefits before securing employment.

Table 3 shows the cumulative number of workers who have exhausted all of their Federal UI benefits in each State at the end of July. New York had the largest number of workers exhausting benefits (111,000), followed by Texas (78,000), Florida (62,000), Pennsylvania (58,000), and Illinois (58,000). Because California and New Jersey met the high unemployment test and were eligible for another 13 weeks of UI benefits until early July, many fewer workers had exhausted UI benefits in those large States. On average, the number of unemployed workers exhausting their benefits in each State is projected to increase by about two thirds by the end of September, and more than double by the end of the year.

By the end of October 2002, more people will have exhausted their TEUC benefits than exhausted EUC benefits in all of 1992. In the initial twelve and a half months of EUC, 1.4 million workers exhausted their benefits before finding work. Under the current TEUC program, which took effect in mid-March, a total of 2.2 million workers are projected to exhaust their benefits in calendar year 2002.<sup>18</sup>

**Number of Workers Exhausting (or will exhaust)  
Federal UI Benefits**  
(in millions of workers)



Over 60 percent of those receiving TEUC benefits are currently exhausting these benefits. By comparison, about 45 percent of EUC beneficiaries exhausted their EUC benefits in 1992.<sup>19</sup> A higher rate of workers are exhausting benefits today primarily because fewer weeks of benefits are available today than in 1992, and unemployed workers thus have less time now than they did in the previous downturn to find work before their benefits terminate. The higher rate might also signal a labor market in which it is more difficult to find a job.

The graph above illustrates the number of workers exhausting benefits for comparable periods of time. The 2002 total is a projection based upon the reported data for the TEUC program to date. Exhaustions are higher today than in 1992 for two reasons. The exhaustion rate, as explained above, is higher currently than during the EUC program, as is the number of unemployed individuals that could potentially exhaust benefits. In addition, the stock of exhaustions when the program began was somewhat greater in 2002 than in 1992.

#### CONCLUSION

It is necessary to extend the expiration date of the TEUC program beyond the end of calendar year 2002. Economic conditions and the unemployment situation have not improved since the program was enacted in March, and the Total Unemployment Rate is expected to remain above its March level until after the TEUC program is currently set to expire. Typically, unemployment rates remain high even after a recession has ended. In the last recession, the TUR peaked in June 1992, 15 months after the recession had officially ended. The unemployment rate did not decline to its level at the beginning of that recession until December 1994, 3 years and 9 months after the recession ended. The current unemployment situation is not likely to improve until the middle of 2003, according to CBO, and therefore the TEUC program should be continued.

There is historical precedent for both extending the expiration date of the TEUC program and expanding the number of weeks of benefits provided. Analysis of the changes in the Adjusted Insured Unemployment Rate, the Insured Unemployment Rate, and the numbers of people exhausting their regular State UI benefits shows that this recession is similar to or exceeds the recession of the early 1990s, when more than 13 weeks of additional, federally financed benefits were always available in all States, and when such benefits were available for more than three times as long as the 9.5 months provided under the current TEUC program. Also, there is justification for expanding TEUC coverage to include workers who may have fewer than 20 weeks of wage history or who would have qualified for regular UI benefits if their most recent wages were included in their base period or if they were not disqualified because they were seeking part time employment.

APPENDIX: A BRIEF DISCUSSION OF UNEMPLOYMENT MEASURES USED IN THIS  
TESTIMONY

The most commonly used unemployment statistics are those announced each month by the Bureau of Labor Statistics based upon a sample of approximately 60,000 households. The sample does not collect enough information in each State to measure accurately changes in unemployment or long-term unemployment. And because the survey depends upon household responses, the data may contain reporting errors. Despite these problems, these data are an important and provide a consistent set of longitudinal data about employment and unemployment.

Another source of unemployment statistics is the Unemployment Insurance system itself. Administrative data from the UI system are not based upon a sample, so accurate information on the unemployment situation in each State can be garnered (only regarding the unemployed who are actually receiving benefits), and they are administrative data, which avoids some of the difficulties with the household survey. Furthermore, certain UI data can provide a good measure of long-term unemployment. The three forms of unemployment data used in this paper are described in more detail below.

The Total Unemployment Rate (TUR) measures the number of people who are unemployed as a percentage of the total labor force. The TUR is based on Current Population Survey sample data from the Bureau of Labor Statistics and includes people who are entering the labor market for the first time or returning after a long absence, people who may have left their jobs voluntarily, and people who lost their jobs.

The Insured Unemployment Rate (IUR) is based on administrative data reported by the States to the Department of Labor, and measures the number of people receiving regular State UI benefits as a percentage of those who are “covered” under the UI program.<sup>20</sup> To some extent, the IUR may be thought of as the unemployment rate of workers with a significant labor force attachment because the IUR, unlike the TUR, only includes people who qualify for UI benefits (that is, they have met certain earnings requirements, have lost their jobs involuntarily, and are looking for new employment).

However, the IUR is also not a perfect measure of unemployment, even among experienced workers. Because it only includes workers receiving regular State UI benefits, which end after 26 weeks or less, workers who exhaust their regular State UI benefits but are unable to find employment are not counted. Thus, the IUR can decline in States where the unemployment situation is actually worsening because durations of unemployment are increasing.

Also, the IUR includes only unemployed workers receiving regular State UI benefits. Some workers who are experienced—such as workers employed for a considerable number of years in part-time jobs—do not receive unemployment insurance benefits because of eligibility restrictions. Further, eligibility for unemployment insurance varies widely among the States. Some States do not include the most recently completed quarter of wages in the base period, so recently hired workers in those States may not qualify for benefits in those States.

Another weakness of the IUR is that although unemployment is a seasonal phenomenon, BLS seasonally adjusts only the national IUR, not State data. Rates are expected to decline in the summer months, and those seasonal declines have compounded the problems with the programmatic trigger levels for States, which do not account for the temporarily deflated rates. Furthermore, the IUR is an administrative definition of unemployment that is not uniform across the State. States have very different eligibility rules, which can also change over time.

The Adjusted Insured Unemployment Rate (AIUR) is the number of workers receiving regular State UI benefits plus the number of workers who have exhausted regular UI benefits in the previous 3 months divided by the number of workers who are eligible for UI benefits. It measures short- and long-term unemployment among experienced workers.

Seasonally adjusted state-level data on insured unemployment are not available and neither State nor national exhaustion data are seasonally adjusted. Therefore, AIUR comparisons in this paper were made using the same months in the years being compared. Since the period of February–July 1992 was the peak of the last recession, this paper uses February–July 2002 as a basis for comparison. If February–July 2002 is not the peak of the current recession, the extent to which changes in exhaustions, the IUR, and the AIUR during this recession exceed those of the last recession would be even greater.

**Table 1. Increases in the AIUR Are Greater in 35 States in this Recession Compared to the Previous Recession**

	1992	2002	Change (1990-1992)	Change (2000-2002)
Alabama	3.2%	3.0%	0.4%	1.0%
Alaska	8.3%	6.3%	1.7%	0.6%
Arizona	3.3%	2.5%	1.0%	1.0%
Arkansas	4.4%	4.1%	1.0%	1.4%
California	5.6%	4.6%	2.1%	1.7%
Colorado	2.3%	2.5%	0.4%	1.6%
Connecticut	5.1%	4.0%	1.7%	1.9%
Delaware	2.7%	2.7%	1.2%	1.0%
District of Columbia	3.7%	2.9%	1.3%	1.1%
Florida	3.5%	2.5%	1.6%	1.1%
Georgia	2.7%	2.6%	0.7%	1.4%
Hawaii	2.7%	2.9%	1.4%	0.9%
Idaho	4.4%	3.6%	0.7%	1.3%
Illinois	3.7%	3.9%	1.0%	1.9%
Indiana	2.0%	2.8%	0.6%	1.5%
Iowa	2.4%	2.5%	0.6%	1.1%
Kansas	2.8%	2.7%	0.6%	1.3%
Kentucky	2.7%	2.9%	0.3%	1.1%
Louisiana	3.4%	2.5%	1.0%	0.7%
Maine	4.9%	2.4%	1.3%	0.7%
Maryland	3.6%	2.6%	1.5%	1.1%
Massachusetts	4.8%	4.4%	0.2%	2.1%
Michigan	4.2%	4.4%	0.6%	2.0%
Minnesota	2.4%	2.8%	0.2%	1.5%
Mississippi	4.0%	3.4%	0.8%	1.1%
Missouri	3.7%	3.3%	0.9%	1.3%
Montana	3.6%	2.8%	0.6%	0.6%
Nebraska	1.6%	1.9%	0.4%	0.9%
Nevada	4.2%	3.9%	1.8%	1.5%
New Hampshire	2.2%	1.9%	0.1%	1.3%
New Jersey	5.5%	4.8%	1.8%	1.8%
New Mexico	3.1%	2.7%	0.7%	1.0%
New York	4.8%	4.0%	1.5%	1.8%
North Carolina	2.4%	3.6%	0.5%	2.0%
North Dakota	2.3%	1.6%	0.3%	0.2%
Ohio	3.1%	2.8%	0.9%	1.3%
Oklahoma	2.7%	2.3%	0.7%	1.1%
Oregon	4.9%	5.1%	1.5%	2.1%
Pennsylvania	4.8%	4.6%	1.5%	1.8%
Rhode Island	6.9%	4.3%	1.2%	0.8%
South Carolina	3.3%	3.5%	1.2%	1.7%
South Dakota	0.9%	0.9%	0.2%	0.4%
Tennessee	3.3%	3.2%	0.1%	1.0%
Texas	3.0%	3.2%	0.9%	1.5%
Utah	1.8%	2.6%	0.4%	1.4%
Vermont	4.2%	3.0%	1.1%	1.4%
Virginia	1.5%	1.6%	0.5%	0.9%
Washington	4.6%	5.0%	1.3%	2.0%
West Virginia	4.2%	3.0%	1.3%	0.8%
Wisconsin	2.9%	3.9%	0.5%	1.9%
Wyoming	2.3%	1.7%	0.8%	0.4%
<b>Total</b>	<b>3.9%</b>	<b>3.6%</b>	<b>1.1%</b>	<b>1.5%</b>

Note: The AIUR is the number of workers receiving regular state UI benefits plus the number who have exhausted regular UI benefits in the previous three months divided by covered employment. AIUR rates shown are three-month averages for June-August in the given years.

**Table 2. Comparison of Number and Increase in the Number of Unemployed Workers Exhausting Their Regular UI Benefits in This Recession and the Prior Recession**

	Number of Exhaustions		Increase in Exhaustions	
	February-July 2000	February-July 2002	Between Feb.-Jun. 2000 and Feb.-Jun. 2002	Between Feb.-Jun. 1990 and Feb.-Jun. 1992
Alabama	13,522	24,811	11,289	7,701
Alaska	9,319	11,212	1,893	3,772
Arizona	11,169	23,909	12,740	9,492
Arkansas	11,959	22,346	10,387	9,271
California	195,454	331,345	134,891	170,464
Colorado	10,392	37,146	21,754	5,964
Connecticut	12,464	27,274	14,810	18,286
Delaware	2,453	4,714	2,261	2,794
DC	4,141	9,156	5,015	4,376
Florida	38,832	87,680	48,848	60,038
Georgia	19,310	57,284	37,974	26,519
Hawaii	3,661	7,255	3,594	3,426
Idaho	6,747	12,243	5,496	3,830
Illinois	45,547	104,891	59,344	35,402
Indiana	17,936	47,726	29,788	10,526
Iowa	8,148	17,520	9,472	6,684
Kansas	8,415	16,030	7,615	4,235
Kentucky	9,052	20,268	11,216	4,485
Louisiana	10,956	17,572	6,616	6,375
Maine	5,173	7,040	867	8,103
Maryland	13,617	23,963	10,366	14,384
Massachusetts	23,434	70,247	41,813	13,645
Michigan	45,081	92,523	47,442	23,357
Minnesota	14,125	37,228	23,103	5,126
Mississippi	7,812	14,809	6,997	4,533
Missouri	19,034	37,034	18,030	15,198
Montana	4,167	5,836	1,769	1,343
Nebraska	4,066	9,467	5,391	2,248
Nevada	11,006	22,984	11,978	9,588
New Hampshire	211	4,565	4,354	1,437
New Jersey	57,138	103,141	46,003	50,117
New Mexico	4,619	8,176	3,557	2,010
New York	89,381	192,570	103,189	81,812
North Carolina	22,321	73,222	47,901	18,466
North Dakota	2,655	3,599	944	302
Ohio	24,163	62,664	38,501	26,702
Oklahoma	5,686	14,059	8,373	5,465
Oregon	19,188	40,693	21,505	15,194
Pennsylvania	47,626	100,322	52,496	47,276
Puerto Rico	28,871	32,547	3,676	8,844
Rhode Island	6,747	9,710	2,963	6,350
South Carolina	10,941	31,917	20,976	13,320
South Dakota	346	1,004	658	54
Tennessee	22,321	46,642	24,321	12,999
Texas	83,863	192,695	108,832	44,555
Utah	5,979	14,800	8,821	2,865
Vermont	1,226	3,025	1,799	2,135
Virginia	11,562	34,393	22,831	17,184
Virgin Islands	241	444	203	436
Washington	31,062	58,069	27,007	14,979
West Virginia	4,468	6,154	1,686	4,233
Wisconsin	20,212	51,632	31,420	6,505
Wyoming	1,494	1,877	383	936
<b>Total</b>	<b>1,096,485</b>	<b>2,281,643</b>	<b>1,185,158</b>	<b>874,491</b>

Source: U.S. Department of Labor

**Table 3. Cumulative Number of Workers Exhausting TEUC Benefits and the Number of Workers Currently Receiving TEUC Benefits**

	Number of workers who have exhausted TEUC benefits (cumulative through July 31)	Number of workers currently receiving TEUC benefits (in week ending August 3)
Alabama*	10,332	11,324
Alaska	1,943	3,416
Arizona	11,191	7,754
Arkansas	7,307	6,830
California**	37,735	185,811
Colorado	12,733	13,503
Connecticut	13,005	12,405
Delaware	1,801	1,857
District of Columbia*	3,236	1,621
Florida	62,484	38,061
Georgia**	40,518	22,433
Hawaii	3,172	3,164
Idaho	1,984	4,024
Illinois	57,734	46,736
Indiana	21,936	13,095
Iowa	7,895	5,768
Kansas	4,017	6,812
Kentucky	11,743	9,725
Louisiana	9,991	7,095
Maine	2,935	2,456
Maryland	13,685	9,596
Massachusetts	17,132	57,093
Michigan**	39,288	60,495
Minnesota	17,314	12,750
Mississippi	10,841	6,566
Missouri	18,725	13,557
Montana	NA	1,147
Nebraska	NA	2,616
Nevada**	9,740	5,932
New Hampshire	1,391	2,080
New Jersey**	7,080	73,033
New Mexico	2,955	2,350
New York	110,596	66,482
North Carolina	28,905	27,674
North Dakota	1,204	523
Ohio	36,530	32,055
Oklahoma	7,734	6,025
Oregon	650	29,775
Pennsylvania**	58,336	97,664
Rhode Island	4,825	3,163
South Carolina	18,654	13,795
South Dakota	322	435
Tennessee	30,766	17,721
Texas	77,573	48,442
Utah	5,464	4,044
Vermont	1,045	1,133
Virginia	15,706	11,935
Washington	3,992	48,724
West Virginia	3,179	3,162
Wisconsin**	17,033	16,606
Wyoming	848	421
<b>Total</b>	<b>889,578</b>	<b>1,082,094</b>

\*July exhaustion data for these states estimated based upon trends in May and June.

\*\*Original Department of Labor data adjusted based upon conversations with state officials. Generally, our revised data find lower numbers of exhaustions than the original Department data.

Source: Department of Labor. Some data remain preliminary and may be adjusted on the basis of further information from the states.



## FOOTNOTES

<sup>1</sup>The Adjusted Insured Unemployment Rate (AIUR) is simply the number of unemployed workers collecting UI benefits in a given month plus the previous 3 months of exhaustion data. It does not include unemployed workers with unemployment spells of more than 39 weeks.

<sup>2</sup>Primus, Wendell and Jessica Goldberg. "Number of Workers Exhausting Federal Unemployment Insurance Benefits Will Reach an Estimated 1.5 Million by the End of September and Exceed Levels in the Last Recession." Center on Budget and Policy Priorities, September 6, 2002.

<sup>3</sup>If anything, since the current figures include an initial 6 months that preceded the downturn, this should produce comparisons slightly biased toward overstating the impact of the 1990s recession and understating the current recession. See Appendix for more information.

<sup>4</sup>This comparison contrasts the average monthly seasonally adjusted IUR from June 1990–August 1990 to the average monthly IUR from June 1992–August 1992. This is the one set of UI data for which seasonal adjustments are available.

<sup>5</sup>The IUR includes only unemployed workers receiving regular State UI benefits. Some workers who are experienced—such as workers employed for a considerable number of years in part-time jobs—do not receive unemployment insurance benefits because of eligibility restrictions. Further, just who is eligible for unemployment insurance varies widely among the States.

<sup>6</sup>The Adjusted Insured Unemployment Rate (AIUR) is the IUR rate plus the previous 3 months of exhaustion data. It does not include unemployed workers with unemployment spells of more than 39 weeks. This definition was used in the Emergency Unemployment Compensation (EUC) program in the early 1990s.

<sup>7</sup>Adjusting for the size of the covered labor force, the number of exhaustions is slightly less.

<sup>8</sup>The "covered labor force" is all employees for whom UI taxes are paid. The UI system covers 97 percent of all wage and salary workers.

<sup>9</sup>"The Unemployment Situation: August 2002." Bureau of Labor Statistics, September 6, 2002.

<sup>10</sup>When enacted, the EUC program provided 13 or 20 weeks of benefits. However, before those benefits were exhausted, an additional 13 weeks were added.

<sup>11</sup>Alaska, Arkansas, California, Idaho, Massachusetts, Michigan, Nevada, New Jersey, Pennsylvania, and Wisconsin qualified to provide up to 26 weeks of TEUC benefits for part of the TEUC program, but had all triggered off of the second tier of benefits as of the end of July 2002.

<sup>12</sup>Mathematically, the only way that the TUR can increase while the IUR decreases is if a much higher percentage of the unemployed left their jobs voluntarily or are new or re-entrants to the market, which the CPS indicates is not currently the case, or if long-term unemployment becomes a higher percentage of total unemployment and seasonal factors distort the IUR.

<sup>13</sup>Orszag, Peter. "Unemployment Insurance as Economic Stimulus." Center on Budget and Policy Priorities, November 15, 2001.

<sup>14</sup>Joseph Stiglitz, "A Boost That Goes Nowhere," *The Washington Post*, November 11, 2001, page B01.

<sup>15</sup>Lawrence Chimerine, Theodore Black, and Lester Coffey, "Unemployment Insurance as an Automatic Stabilizer: Evidence of Effectiveness over Three Decades," Unemployment Insurance Occasional Paper 99–8, U.S. Department of Labor, July 1999.

<sup>16</sup>Goldberg, Jessica and Wendell Primus. "The Importance of Using Most Recent Wages to Determine Unemployment Insurance Eligibility and Duration of Benefits." Center on Budget and Policy Priorities, June 26, 2002.

<sup>17</sup>Primus, Wendell and Jessica Goldberg. "Number of Workers Exhausting Federal Unemployment Insurance Benefits Will Reach an Estimated 1.5 Million by the End of September and Exceed Levels in the Last Recession." Center on Budget and Policy Priorities, September 6, 2002.

<sup>18</sup>The first 12.5 months of EUC are compared to the first 9.5 months for TEUC. The reason for this difference in months is that on average, about 15 more weeks of benefits were provided under the EUC program in the first half of 1992 than under the TEUC program, and on average 8 more weeks in the second half. To make a valid comparison between 1992 and 2002, a 3 months difference in the number of months for which exhaustions are accumulated was used. Mechanically, one needs to compare exhaustions over a longer time period for a program that provides 26 weeks versus 13 weeks. Essentially, there are fewer exhaustions in the first 6 months of a 26 week program as compared to the first 6 months of a 13 week program.

<sup>19</sup>Of the 4.6 million workers who received EUC benefits in the first 12.5 months, some 3.1 million could have exhausted benefits in that period. (Some could not exhaust their benefits in that period because the benefits lasted into the subsequent period.) Some 1.4 million—slightly less than half—actually exhausted benefits. The other 1.7 million found a job before their benefits were scheduled to run out. Of the 4.4 million workers projected to receive benefits in 2002 under the TEUC program, 3.5 million potentially could have exhausted these benefits by the end of 2002, and 2.2 million of them are projected to exhaust these benefits.

<sup>20</sup>The “covered labor force” is all employees for whom UI taxes are paid. The UI system covers 97 percent of all wage and salary workers.

The CHAIRMAN. Our next witness, Mr. Felix Batista, has been a waiter at Windows on the World since 1978. He had a vacation day on 9–11; otherwise, he would have been there at the top of the World Trade Center. He lost 73 coworkers in the 9–11 attacks. He also lost his job, and 2 months ago, he exhausted all of his unemployment benefits. He was using his benefits to support his mother and his 14-year-old daughter. He has been actively looking for work for the past year, but there are no jobs to be found.

Napoleon Morales is another unemployed worker who is accompanying Mr. Batista.

We would be glad to hear from you, Mr. Batista.

Mr. BATISTA. My name is Felix Batista, and I worked at Windows since 1973, and then I lost my job. I have looked everywhere to find a job.

Mr. MORALES. I am going to be helping Mr. Batista to tell his story.

The CHAIRMAN. That is fine. Please go ahead.

Mr. MORALES. My name is Napoleon Morales, and I am also unemployed. I used to work as a contractor for the Federal Government, and after September 11, I became unemployed. I am a member of the New York Unemployment Project.

Mr. Batista’s statement reads as follows:

“Mr. Chairman and members of the committee, thank you very much for giving me the opportunity to appear before you today.”

“My name is Felix Batista. I am 57 years old and a resident of Queens, NY. I am a single father of four and have been unemployed since September 11, 2001, 1 year ago yesterday.”

“I am here today as a citizen, a New Yorker, and a survivor to tell you my story and the stories of so many of us who want to work. I am a member of the New York Unemployment Project, a membership-based organization of unemployed New Yorkers formed after September 11 to fight for jobs and income support. I am joined here today by 100 other members of the New York Unemployment Project, each unemployed and with a unique story of their own, to voice our support for Senate bill 2892, the Economic Security Act of 2002.”

“In 1978, I began working at Windows on the World, the restaurant on the 106th floor of Tower 1 of the World Trade Center. For 23 years, I worked there. I did a little bit of everything in the restaurant. I really loved the work. All of my coworkers were really good, even my boss. They treated me well and gave me everything I needed.”

“I lost my job because of September 11. By luck and by the grace of God, I was not working that morning. Just by coincidence, I had asked for my vacation that week, even though September is usually not time for vacation.”

“I lost 73 of my workers at Windows on the World. It was a very difficult thing, because losing them was like losing a member of my family, since I had spent so much time with them—more time even than I had spent with my family.”

“Even for those whose lives were spared, things are very difficult. Three hundred and thirty of my coworkers lost their jobs along with me when the towers fell.”

“After a few weeks, I applied for unemployment benefits. Three weeks after I applied, I received my first unemployment check. In this fashion, I was able to pay my personal expenses without too much difficulty. I was able to continue to support my 14-year-old daughter as well as my aging mother. I had a lot of expenses—for the lights, the gas, the phone, as well as food and clothing for my family, not to mention my rent. These were all crucial services, and with unemployment benefits, I was able to make ends meet.”

“It has been 2 months since my benefits expired. I am still not working, and I still need economic support. Although I have been actively looking for work, I have not found anything. My unemployment benefits helped me to resolve my personal issues and pay my family’s expenses. It was not a lot of money each week, but at least we could survive.”

“I am looking for work, but there is no work out there. I have been looking for work through my union and on my own, through job fairs and other efforts, but I have not been able to find any work at all, not even at minimum wage, not even part-time, not even on a night shift.”

“About 2 months ago, my unemployment benefits and my extension expired. My family and I do not know what is going to happen to us. Up to this point, there has been no response, no help to solve our financial problems. FEMA has been helping me to pay the rent, but the problem is my other expenses that I have. The things that I cannot do because of the lack of benefits are pay my most basic expenses, let alone take a moment to feel relaxed or comfortable in my life. I feel lost. I do not have the resources to survive or to support my family.”

“I tried to apply for public assistance, but there was a lot of red tape, and I was treated very badly. And I do not want to be on public assistance. I am not dead yet. I want to work. I have never wanted to ask for any kind of Government help.”

“When my wife passed away from cancer in 1994, she left me alone with my four children. Everyone told me that I should go and apply for public assistance to get some help. But I did not want to do so, because I have two strong arms still, and I wanted to work. Now, too, I hope to find a job so that I can keep working to support my family. I still have my two strong arms to keep moving forward. The problem is that there is no work.”

“That is why we are here today. We ask you, the Congress of the United States, to help us while we struggle to find work and struggle to keep living.”

“I have worked for more than 21 years in this country. I have paid my taxes for all of these years. But now, in my time of need, I am unable to find support. I do not think that this is fair.”

“Unfortunately, my story is not unique. All of the other members of the New York Unemployment Project with me here today are

also struggling to find money for basic necessities in the absence of work or unemployment benefits.”

“I will tell you a little bit about each of their stories and ask them to stand up.”

“Rafael Camano, also a former Windows on the World employee, has run out of his extended unemployment benefits. He has received only a few job offers for off-the-books work that pays below the minimum wage.”

“Mohammed Fruitwala lost his job as a catering supervisor at Restaurant Associates in the World Financial Center on September 11. He is the sole breadwinner for his family of three in Brooklyn. He has also exhausted his unemployment benefits.”

“Pauline Onwu lost her job after September 11. She had been working at the Red Cross, helping with disaster relief, and was laid off in March. While she still has a few weeks of extended benefits and has managed to secure 8 hours of low-wage work at Lord and Taylor department store in Manhattan, she cannot find a full-time job and fears eviction when her benefits run out.”

“Alan Reiss was a marketing manager in the high-tech sector in Manhattan. He has exhausted his extended benefits, been forced to file for bankruptcy, and now has had to suffer the indignity of the welfare system.”

“We, the members of the New York Unemployment Project, are just a few of the 110,000 New Yorkers who have exhausted our Federal extended benefits. In March, you the Congress gave our State over \$40 million for our unemployment insurance trust fund. The law that you passed relied on Governors and State legislatures spending the money to alleviate high unemployment but did nothing to compel them to. In New York, all of the money was used to pay off debt the fund had incurred due to poor fiscal management and to meet existing benefit claims, staving off a payroll tax hike for big business. Yet, when New Yorkers like us demanded Governor Pataki act to extend benefits, he claimed the State had no money.”

“This bill is so important because not only does it extend benefits now, it ensures that in the future, unemployed workers will receive automatic extensions of their benefits in times of deep recession and high unemployment.”

“New Yorkers need this bill. This country needs this bill. Me and my family need this bill.”

“Thank you, Mr. Chairman, and I thank the committee.”

[The prepared statement of Mr. Batista follows:]

PREPARED STATEMENT OF FELIX BATISTA

Mr. Chairman and Members of the Committee. Thank you very much for giving me the opportunity to appear before you today.

My name is Felix Batista. I am 57 years old and I live in the Corona section of Queens, New York. I am a single father of four and have been unemployed since September 11, 2001—1 year ago yesterday. I am here today as a citizen, a New Yorker and a survivor to tell you my story and the stories of so many of us who want to work. I am a member of the New York Unemployment Project, a membership based organization of unemployed New Yorkers formed after September 11—to fight for jobs and income support. I am joined here today by forty other members of the New York Unemployment Project, each unemployed and with a unique story of their own, to voice our support for Senate bill 2892—the Economic Security Act of 2002.

In 1978, I began working at Windows on the World, the restaurant on the 106th floor of tower one of the World Trade Center. For 23 years I worked there. I did a little bit of everything in the restaurant. I really loved the work. All of my coworkers were really good, even my boss. They treated me well and gave me everything I needed.

I lost my job because of September 11th. By luck and by the grace of God, I was not working that morning. Just by coincidence I had asked for my vacations that week even though September is usually not time for vacations.

I lost 73 of my coworkers at Windows on the World. It was a very difficult thing, because losing them was like losing a member of my family, since I had spent so much time with them, more time, even, than I had spent with my family.

Even for those whose lives were spared, things are very difficult. Three hundred and thirty of my coworkers lost their jobs along with me when the towers fell.

After a few weeks, I applied for unemployment benefits. Three weeks after I applied, I received my first unemployment check. In this fashion, I was able to pay my personal expenses without too much difficulty. I was able to continue to support my fourteen-year old daughter as well as my aging mother. I had a lot of expenses—for the lights, the gas, the phone, as well as food and clothing for my family, not to mention my rent. These were all crucial services, and with unemployment benefits I was able to make ends meet.

It has been 2 months since my benefits expired. I am still not working and I still need economic support.

Although I have been actively looking for work, I haven't found anything. My unemployment benefits helped me to resolve my personal issues and pay my family's expenses. It wasn't a lot of money each week, but at least we could survive.

I'm looking for work, but there is no work out there. I've been looking for work through my union, and on my own, through job fairs and other efforts. But I haven't been able to find any work at all, not even at minimum wage, not even at part time, not even on a night shift.

And 2 months ago, my unemployment benefits and my extension expired. My family and I don't know what is going to happen to us. Up to this point there has been no response, no help to solve our financial problems. FEMA has been helping me to pay the rent, but the problem is my other expenses that I have. The things that I can't do because of the lack of benefits are pay my most basic expenses, let alone take a moment to feel relaxed or comfortable in my life. I feel lost. I don't have the resources to survive or to support my family.

I tried to apply for public assistance, but there was a lot of red tape and I was treated very badly. And I don't want to be on public assistance. I'm not dead yet. I want to work.

I have never wanted to ask for any kind of government help. When my wife passed away, from cancer, in 1994, she left me alone with my four children. Everyone told me that I should go and apply for public assistance to get some help. But I didn't want to do so because I had two strong arms still and I wanted to work. Now, too, I hope to find a job so that I can keep working to support my family. I still have my two strong arms to keep moving forward. The problem is that there is no work.

That's why we are here today. We ask you, the Congress of the United States, to help us while we struggle to find work and struggle to keep living.

I have worked for more than 21 years in this country. I have paid my taxes for all of these years but now, in my time of need, I am unable to find support. I don't think that this is fair.

Unfortunately, my story is not unique. All of the other members of the New York Unemployment Project with me here today are struggling to find money for basic necessities in the absence of work or unemployment benefits.

I will tell you a little bit about each of their stories and ask them to stand up.

Rafael Camano, also a former Windows on the World employee has run out of his extended unemployment benefits. He has received only a few job offers for off the books work that pays below the minimum wage.

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We, the members of the New York Unemployment Project are just a few of the 110,000 New Yorkers who have exhausted our Federal extended benefits.

In March, you the Congress gave our State over \$400 million for our unemployment insurance trust fund. The law you passed relied on Governors and State Legislatures spending the money to alleviate high unemployment but did nothing to compel them too. In New York all of the money was used to pay off debt the fund had incurred due to poor fiscal management and to meet existing benefit claims—staving off a payroll tax hike for big business. Yet, when New Yorkers like us demanded Governor Pataki act to extend benefits, he claimed the State had no money.

This bill is so important because not only does it extend benefits now, it ensures that in the future unemployed workers will receive automatic extensions of their benefits in times of deep recession and high unemployment.

New Yorkers need this bill. This country needs this bill. Me and my family need this bill.

Thank you.

The CHAIRMAN. Very good.

We want to thank you for an enormously powerful and moving statement and comments, and we thank all of your associates who are with you today.

I have to find out what the signal is so that you all put your signs up at the same time.

[Laughter.]

I think I know, because there are many, many reasons to raise those signs. But we want to extend a very warm welcome to all of you.

I think I will ask staff if they will put a couple of pads out on the tables on either side of the room so we can get everyone's names, all those who have come down as part of this effort. I think it is important that we know who came; it makes an important difference to all of us.

I see that we have been joined by Jack Reed, who is chairman of the Joint Economic Committee, which tries to provide guidance to both the Congress and the administration on these types of issues. We are very grateful for his presence here for that reason and because he strongly supports our efforts to try to provide these extensions.

Mr. Batista, I would be interested if you could tell us what it is like to go out and look for a job, having these responsibilities back home, providing for your mother and your daughter, and continuing to hear "No," "No," and "No" all day long? What does that do to you, just personally?

We had a very important day yesterday as we took moments to honor those who lost their lives. We took a moment to celebrate the extraordinary courage of those who were helping people, but also took a moment about reaching out and helping others in need. And we are hearing from those testifying here about real needs that are out there, and somehow, many of the speeches yesterday have a hollow ring to them if we are not going to reach out and help people who are in real need. That is what was exhibited on that day by many who tried to help others and have been trying to help families.

That is one of the sentiments that we took a sense of pride in yesterday, that Americans reach out and try to help those who are in need. We have just heard a personal story of a family that is

in need, and we have seen from the hands that went up, representatives of scores, thousands, and I think millions of families who have been affected by this, and I think the question is whether we are going to learn something from yesterday and from a year ago, saying that we are all in this together to fight terrorism, but also to understand that the attacks on us have losses not only in loss of life, but also in the loss of jobs, and that is part of the challenge as well. We cannot ignore that. We cannot ignore that and say that we are fighting terrorism, I do not think. Maybe some can, but I do not think we can. And we are reminded of that at this hearing today.

Mr. Batista, it must be awfully difficult, as somebody who has worked and wants to work, to go out and try to gain work and be told that there is no work around. Maybe you could tell us about that.

Mr. BATISTA [Interpreted by Mr. Morales]. Well, you know, it is very difficult. I do not feel good. This is the second time that it has happened to me. In 1983 also, I went through something like this. Thank God, I was not killed—I was not there—but it is terrible that this is happening to me.

How are you going to feel when you go through something like this, and it is the second time? And thank God nothing happened to me. Being in this position—and I do not have a wife; my wife is not alive, and I am raising four kids—I have to support my family. On top of it, and to make matters worse, it feels bad that you cannot find a job, and you hear “No,” “No,” “No,” every time.

You feel terrible. It feels like the entire world is on you. You feel like you do not have anybody around you. More or less this is my position. I am just letting you know how I feel. And I thank you very much for allowing me to give you my testimony and also to take part in this committee hearing.

The CHAIRMAN. Well, I want to thank you very much, Mr. Batista. The best way we can thank you is to get the legislation passed, and we are committed to doing it. Your testimony is enormously helpful, and I will speak to our colleagues about it on the Senate floor when I have the opportunity when we are going to consider this.

Dr. Mishel, the administration has brought up the idea of additional tax cuts, decreasing the deductibility limit on capital losses, reducing capital gains tax rates to stimulate the economy.

What is your assessment of those ideas?

Mr. MISHEL. I think this is a wrong-headed set of tax cuts for a number of different reasons. One, they are permanent when we only need temporary relief. Two, they are targeted incorrectly. They are targeted at investor confidence, which necessarily also means well-off people.

What they are not targeted at is creating more customers. Doing things that increase saving is not what we want now. We want people buying things. So the tax cuts are permanent and not temporary. They provide a permanent fiscal imbalance which we do not want, and they are not aimed at demand, at actually stimulating growth by having people buy things.

So I think there is a different agenda here, not the agenda of getting a faster recovery out of this recession.

The CHAIRMAN. Let me ask you also about the increase in the minimum wage. We increased it 6 years ago, and effectively, the benefits of that are being wiped out this year if we do not increase it again. What would you say about increasing the minimum wage to those who say we really cannot do it because we are facing large numbers of unemployed, and if you raise the minimum wage, it is going to increase unemployment and throw people out of work; if you raise wages, it will add to inflation and really be a disservice to people who need help the most.

How do we answer that?

Mr. MISHEL. I think there are two things that we should discuss about that. One is that the high unemployment itself right now is hurting the wage growth of low-wage workers, and we are seeing a renewal of a wage gap growing between those at the bottom and those in the middle and at the top. We have not seen that for a few years. That is going on now, and the wage growth of workers at the bottom is barely keeping up with inflation now. So the minimum wage would be one way to help offset the effect of the higher unemployment on low-wage labor markets. As you see, we have had someone testify who is trying to find a job and cannot find a job, and in those circumstances, employers do not raise wages. The minimum wage helps offset that.

Second, I would just point out the experience of the early nineties where, in 1990 and 1991, there was a minimum wage increase during a very similar economic time as we have now. There have been several studies, including those done by our institute, that have shown that there was no job loss from that, yet it helped those who needed help the most by raising wages.

So I think experience says that there is not much of a cost to doing this, and it is also clear that it would be greatly beneficial.

The CHAIRMAN. Dr. Primus, one of the facts is that during that period in the early 1990's, we saw an increase in the unemployment insurance extensions during the recession of the 1990's. On November 15, 1991, it passed 91-2; and on February 4, 1992, it passed 94-2; in July of 1992, it was 93-3; in March of 1993, it passed 63-33.

These are examples of four different pieces of legislation to extend the unemployment compensation, three of them strongly bipartisan, into the 1990's, and the second one two-to-one, 63-33. That is a big vote around here, to get 63 votes in favor.

What is different? We passed four of those when we had these needs, and now we have difficulty trying to address the problems, with increasing numbers losing their coverage, and the prospect of thousands and thousands losing their coverage is very, very real. What is the difference? Why is that?

Mr. PRIMUS. I guess I would point to two differences. I think we have been deluded when the unemployment rate is still below 6 percent. The press—everyone—believes that this is a mild recession. What I tried to do in my testimony was to show that in more States, this recession is harder on workers than the last recession. So in terms of the impact on workers, it is more severe, but our one official rate that everybody looks to is not as high as the last recession. But again, as I said, that is the wrong way to look at it.



Frankly, the other difference is that the other body, where I worked, was Democrat, and Chairman Rostenkowski at that time—and I worked for acting subcommittee chairman Tom Downey—we took the lead in getting legislation passed. And as I indicated in my testimony, this is a bipartisan process. These extensions were all signed into law by former President Bush. And it seems to me that if the recession is more severe this time, there is the money in the trust fund, and we already see that a lot of workers like Mr. Batista here have run out of those Federal temporary benefits, and this program is a lot less generous. It seems to me that that creates a very strong case for you, Mr. Chairman, and others. And unemployment is affecting both States that have Republican Senators and Democrat Senators.

So I would hope that you would be able to improve this current temporary program along the lines indicated in your bill.

The CHAIRMAN. This is a lot less generous. Could you review the way that the system has altered or changed the triggering mechanism and why that works in the way that it does and the result, which is increasing pressure on the unemployed?

Mr. PRIMUS. It is a lot less generous in terms of the additional weeks. As you indicated, in the very first bill that was passed, there were 13 weeks and then 20 weeks; but before workers had even exhausted—I made a mistake—it was 20 and—

The CHAIRMAN. Yes, 20 and 13.

Mr. PRIMUS [continuing]. Yes, 20 and 13—but before the 13 weeks was exhausted, Congress came back in February and enacted another 13 weeks. So in a sense, we had 35 States with 26 weeks and 16 States with 33 weeks. And by the middle of the year, that had dropped to 36 States with 26 weeks—that was the minimum—and 15 States were getting 26 weeks. Today there are only two States that can provide more than 13 weeks of benefits, and the reason for that is twofold.

The reason why some States have dropped out of being called high-unemployment is, one, that the trigger level was not seasonally adjusted. During the summer months, unemployment does decline. The second reason is that in your bill, you do not count workers like Mr. Batista anymore in the rate that determines whether a State is high-unemployment, and because we do not count Mr. Batista, unemployment has fallen, and therefore, many States have dropped out of high-unemployment status.

The CHAIRMAN. Well, that does not make any sense, does it?

Mr. PRIMUS. That is the point. It does not make any sense why we should not continue to count workers who are unemployed, and your bill remedies that, and if you enact the bill, more States would be eligible for additional weeks. In my opinion, Mr. Chairman, what you should do is anyone who has exhausted temporary benefits should get some additional weeks; and I think that in high-unemployment States, you should even increase the number of weeks somewhat more.

The CHAIRMAN. Let me just ask you this, and then I will turn to Senator Reed. How do you answer the question that in high unemployment and less high unemployment, people are still out of work, so why should the higher unemployment get the additional benefits? Could you just comment on that?

Mr. PRIMUS. I think that high unemployment indicates that the labor market is tougher, that it is harder to find a job, and therefore, if you look at the number of workers who are exhausting, there is going to be more exhausting in a high-unemployment State. I think that is the basic argument.

The CHAIRMAN. Mr. Mishel?

Mr. MISHEL. Mr. Chairman, if I may just comment on the triggers and the problems that it poses. One thing that has happened in the 1990's, I think, is that we should have greater expectations about how low unemployment can go, that is, to be able to get to 4 percent. And the triggers are set from a different time when we might have been satisfied with 5.5 or 6 percent unemployment. So if we think that 4 percent is obtainable and that unemployment above that makes it hard on workers, then, the triggers have to be reconfigured to reflect that. And they have not, and that is why we can have a large increase in unemployment, but we do not get many States going over the trigger.

Thank you.

The CHAIRMAN. Thank you.

Senator Reed?

Senator REED. Thank you very much, Mr. Chairman.

First, let me just say how very proud I am to be here with you. No one has more diligently, faithfully, and tenaciously fought for disadvantaged people than Ted Kennedy, and sometimes it is a lonely battle—and as I look around, this might be one of those times—but it is the right battle.

Let me say first to Dr. Primus and Dr. Mishel that I think your analysis is absolutely correct. As vice chairman of the Joint Economic Committee, we have been following these numbers. Every month, we have the Bureau of Labor Statistics report to us, and what we find is first of all, the statistical anomalies that you have reported in terms of calculating, but more important, the growing long-term unemployment rate, which is a disadvantage particularly for minorities and women in our society. And the impact on not only these working Americans but their children is profound.

There are major impacts in terms of social effects but also in terms of lower consumer spending. Dr. Mishel pointed out that one thing we have to do is get more demand in the economy. A simple way to do that is to keep paying unemployment benefits, because people will take that—and I do not think they play in the stock market; I think they go to K-Mart, if it is still there, to buy for their families.

So I think that this hearing is exactly on target and also extraordinarily necessary. If we cannot do this extension of benefits, what can we do to help these people who want to work and cannot find jobs?

Also, I think the statistics are compelling but not as compelling as your testimony, Mr. Batista and Mr. Morales—thank you—because numbers are numbers, but this is really about people. This is about families; this is about people trying to live with dignity and support families. And you have demonstrated that very clearly, Mr. Batista, and all of your colleagues in the audience.

It is ironic indeed that yesterday, we were honoring you, Mr. Batista, you and the 73 of your colleagues who perished in the

World Trade Center. But talk is cheap. I think that what they would want and what you want is simply to be able to work, and if you cannot work, to be able to get unemployment benefits, and that is not too much to ask.

I thank you for coming and making that case today.

One final point I would raise is that this is very disturbing to me, and perhaps Dr. Primus and Dr. Mishel could comment. In the long-term impact, what I see happening is that in the 1970's and 1980's—certainly in the 1980's—with a similar mentality toward helping Americans, we saw income levels start moving along on a picket fence. The income of the very wealthy went up, the middle stagnated, and the lower-income Americans lost ground in terms of income growth. During the 1990's, because of policies that we adopted here, we were able to reverse that and for the first time, started to see every relative income level start enjoying the same benefits in income growth.

I am afraid that if we continue these policies, if we tolerate these types of approaches, we are once again going to see the picket fence, where the wealthiest Americans do extremely well, and if you factor in the tax cut, extremely, extremely well, but working Americans fall back farther and farther. That is regrettable and in fact despicable.

First, I have one question to the statisticians. That is, in the 1991 recession—excuse me—you are not statisticians; I know that—

Mr. MISHEL. I take that as high praise. That is okay.

Senator REED [continuing]. Well, take what you can get here—in 1991, what portion of lost income was covered by UI benefits, just roughly, and what portion is covered there—I have a sense that even the benefits that we are paying are not the kinds of robust benefits that will keep a family from desperation.

Dr. Primus?

Mr. PRIMUS. Yes. I think the average unemployment check today is about \$240 a week, and the maximum that it covers in terms of replacing lost wages is about 50 to 52 percent, and for a lot of workers who are \$30,000, \$40,000 earners, the replacement rate falls to 35 percent or so. So it by no means—by no means—replaces all of the wages. It only replaces, typically, half and sometimes less.

Senator REED. And it is certainly in that context not a disincentive to finding work quickly.

Mr. PRIMUS. Yes. There have been studies to show that providing benefits equal to that level does not deter work. And if I could comment on the tax incentive issue or tax breaks, for the 2.2 million workers who will exhaust Federal benefits by the end of the year, there is no tax break that you can design that will guarantee that Mr. Batista will get assistance.

There are really only two policy tools that you can have that make sure that all of the unemployed workers behind me get assistance, and that is by doing something about unemployment insurance or creating public jobs, and creating public jobs has a whole set of issues behind it. It is more expensive, it takes a while to get going, etc. And I have no doubt that they want jobs, but in the meantime, they need wages or something to replace those lost

wages, and really, unemployment insurance is your best policy tool for doing that.

Senator REED. Thank you, Dr. Primus.

Do you have a comment, Dr. Mishel?

Mr. MISHEL. Yes, Senator Reed. I share your concern about the effect of high unemployment on the picket fence and the growing inequalities in our society. And I can tell you that we do not yet know what happened to incomes for different types of families in 2001, let alone what is happening now. But I can assure you that when we do know later this month that we will find that inequality rose substantially in 2001, and when find out about 2002, we will know that it grew even further. And I know that because what I know about is people's wages, and I know that we are seeing a growing gap across the board in the kinds of hourly wages that people are paid.

I can also tell you that the high unemployment we have is now costing a middle class family about \$1,800 a year in lost income growth.

But it is not just about income. When we have high unemployment, there are health problems that ensue, there is higher crime, and there is even substantial evidence that the children do worse in school as a result of high unemployment, because it is about people and families; it is not just about money, and money is about much more than going to K-Mart—it is about the very basic necessities of life.

Thank you.

Senator REED. Thanks very much.

Mr. Batista, if you have a comment, please go ahead, but also I wonder how old are your children, and how are they doing?

Mr. BATISTA [Interpreted by Mr. Morales]. The younger is 14, and the others are 22 and 24. Two of them are going to school, and the other two are working, and they feel the situation that I am going through is kind of hard.

Senator REED. And you had a comment, Mr. Morales?

Mr. MORALES. Yes. If I may, I wanted to share a comment on what Drs. Mishel and Primus were saying. In reality, it is true—what has happened to those people who are unemployed in New York and have exhausted their unemployment insurance is that these people disappear from the system, and no one knows about them.

But I have been going to almost 35 centers in New York on a daily basis and checking on them and seeing their faces. They are up-in-arms, and they do not know what their situation is going to be. All of them are saying, "We have never faced anything like this before. This is incredible." We cannot believe that our elected officials in New York City are not doing anything for us. They are ignoring this issue. And basically, I have been recruiting people myself, and they are part of our group.

Senator REED. Just one further question. What job did Mr. Batista do at Windows on the World?

Mr. BATISTA [Interpreted by Mr. Morales]. Setting up the room for banquets and making sure that things were placed in the proper place.

Senator REED. Well, my dad was a school custodian, so Mr. Batista had the most important job there.

Mr. MORALES. Thank you, Senator. We want to thank you very much.

Senator REED. Thank you, Mr. Chairman.

The CHAIRMAN. We want to thank Senator Reed for his comments. Even though this hearing room is not crowded, Senator Reed and I are strongly committed, and we have many allies in our colleagues. We should not adjourn at this time without taking action on this legislation, and we are going to do everything we can to make sure that we do.

Our friends in labor have made this a top priority, and we are going to work very, very closely with them to insist that the Senate take action on this before we adjourn.

So if everyone who agrees with that would raise their red cards—okay, and I will raise mine, too.

We thank all of you for being here, and the committee stands in recess.

[Whereupon, at 11:30 a.m., the committee was adjourned.]